利君國際醫藥(控股)有限公司

Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Placing and Public Offer

Global Coordinator, Sole Bookrunner and Lead Manager

國泰君安證券（香港）有限公司
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

Sponsor

VXL FINANCIAL SERVICES LIMITED
卓越企業融資有限公司

IMPORTANT

***If you are in any doubt** about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.*

利君國際醫藥(控股)有限公司
Lijun International Pharmaceutical (Holding) Co., Ltd.
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LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

Number of Offer Shares	**:**	**70,000,000 Shares (subject to the Over-allotment Option)**
Number of Placing Shares	**:**	**63,000,000 Shares (subject to re-allocation and the Over-allotment Option)**
Number of Public Offer Shares	**:**	**7,000,000 Shares (subject to re-allocation)**
Offer Price	**:**	**Not more than HK$2.20 per Offer Share, payable in full on application and subject to refund and expected to be not less than HK$1.98 per Offer Share**
Nominal Value	**:**	**HK$0.10 per Share**
Stock Code	**:**	**2005**

Global Coordinator, Sole Bookrunner and Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Sponsor

VXL FINANCIAL SERVICES LIMITED
卓越企業融資有限公司

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company and the Lead Manager (on behalf of the Underwriters) on or around 7 December 2005 or such later time as may be agreed by the Company and the Lead Manager but in any event no later than 5:00 p.m. on 9 December 2005.

The Offer Price will be not more than HK$2.20 per Offer Share and is expected to be not less than HK$1.98 per Offer Share. Investors applying for Public Offer Shares must pay the maximum Offer Price of HK$2.20 per Share together with brokerage of 1%, Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.005%. The Lead Manager (on behalf of the Underwriters) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) no later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn. Further details are set out in the sections headed "Structure of the Share Offer" and "How to apply for the Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Company and the Lead Manager (on behalf of the Underwriters) on or before 5:00 p.m. on 9 December 2005, the Share Offer will not become unconditional and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

It is important that prospective investors of the Offer Shares should note that the Lead Manager (on behalf of the Underwriters) is entitled to terminate the obligations of the Underwriters under the Placing and Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out. It is important that prospective investors should refer to the section headed "Underwriting" in this prospectus for further details.

2 December 2005

	2005
Latest time for lodging **PINK** application forms	4:00 p.m. on Tuesday, 6 December
Application lists of the Public Offer open *(Note 1)*	11:45 a.m. on Wednesday, 7 December
Latest time for lodging **WHITE** and **YELLOW** application forms	12:00 noon on Wednesday, 7 December
Application lists of the Public Offer close *(Note 1)*	12:00 noon on Wednesday, 7 December
Price Determination Date *(Note 2)*	on or around Wednesday, 7 December
Announcement of the Offer Price and the level of indication of interests in the Placing, results of applications under the Public Offer and the basis of allocation of the Public Offer Shares to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before	Monday, 12 December
Despatch/collection of refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Public Offer on or before *(Note 3)*	Friday, 16 December
Despatch of share certificates or deposit of the certificates of the Offer Shares into CCASS on or before *(Note 3)*	Friday, 16 December
Dealings in the Shares on the Stock Exchange to commence on	Tuesday, 20 December

Notes:

1. *If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 7 December 2005, the application lists will not open on that day. For details, please see the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for the Public Offer Shares" in this prospectus.*

2. *The Price Determination Date is expected to be on or around 7 December 2005. If, for any reason, the Offer Price is not agreed between the Company and the Lead Manager (on behalf of the Underwriters) on or before 5:00 p.m. on 9 December 2005, the Share Offer will not proceed.*

3. *Applicants who apply for 500,000 Public Offer Shares or more on **WHITE** application forms and have indicated in their application forms that they wish to collect their refund cheques (if any) and/or share certificates in person from the Kwun Tong office of Computershare Hong Kong Investor Services Limited at 3/F., Futura Plaza, 111-113 How Ming Street, Kwun Tong, Hong Kong, may do so in person at the time and on the date as described in the paragraph headed "Collection/posting of share certificates/refund cheques and deposit of share certificates into CCASS" under the section headed "How to apply for the Public Offer Shares" in this prospectus.*

   *Applicants who apply for 500,000 Public Offer Shares or more on **YELLOW** application forms may collect their refund cheques (if any) in person but may not collect their share certificates, which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS investor participant* *stock accounts, as appropriate. The procedure for the collection of refund cheques for **YELLOW** application form applicants are the same as those for **WHITE** application form applicants which are set out in the paragraph headed "Collection/posting of share certificates/refund cheques and deposit of share certificates into CCASS" under the section headed "How to apply for the Public Offer Shares" in this prospectus.*

Uncollected share certificates and/or refund cheques (if any) will be despatched by ordinary post to the address specified in their respective application forms at the applicants' own risk promptly after the expiry of the time for their collection, particulars of which are set out in "Collection/posting of share certificates/refund cheques and deposit of share certificates into CCASS" under the section headed "How to apply for the Public Offer Shares" in this prospectus.

For applicants who have not indicated on their application forms that they will collect their share certificates and/or refund cheques (if any) in person, their share certificates (where applicable) and/or refund cheques (if any) will be despatched by ordinary post to the addresses specified in their respective application forms at the applicants' own risk on 16 December 2005.

4. *In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local time and dates.*

No temporary documents of title will be issued. All share certificates will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and the Placing and Underwriting Agreement has not been terminated in accordance with its terms on or before 8:00 a.m. Hong Kong time on the Listing Date. Investors who trade the Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

Prospective investors of the Offer Shares should note that the Lead Manager (on behalf of the Underwriters) is entitled to terminate the obligations of the Underwriters under the Placing and Underwriting Agreement by notice in writing to the Company, upon the occurrence of any of the events set forth in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out.

If there is any change in the above expected timetable, the Company will issue a separate announcement.

For details of the structure of the Share Offer, including the conditions thereto, please see the section headed "Structure of the Share Offer" in this prospectus.

Contents

You should rely only on the information contained in this prospectus and the application forms to make your investment decision. The Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus.

The Group has not authorised anyone to provide you with information that is different from what is contained in this prospectus and/or the application forms.

Any information or representation not made in this prospectus and the related application forms must not be relied on by you as having been authorised by the Company, any of the Sponsor, the Lead Manager, the Underwriters, the directors, officers, employees, advisers, agents or representatives of any of them, or any other person involved in the Share Offer.

Contents

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. Prospective investors should read the whole document before they decide whether to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risks factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS

The Group is one of the leading pharmaceutical manufacturers in the PRC. According to the statistics of the China Pharmaceutical Enterprises Management Association (中國醫藥企業管理協會), the Group was ranked among the top 100 pharmaceutical manufacturers of 2004 in terms of revenue. The Group is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products which can be broadly categorised into finished medicines and bulk pharmaceuticals.

Products

As at the Latest Practicable Date, Xi'an Lijun, the principal non wholly-owned subsidiary of the Company, had obtained production approvals for the production of more than 300 pharmaceutical products, of which approximately 116 of them were regularly produced by Xi'an Lijun. Among these regularly produced pharmaceutical products, nine products are bulk pharmaceuticals and the remaining 107 products are finished medicines, of which approximately 15 are OTC medicines and approximately 92 products are prescription medicines. As at the Latest Practicable Date, Xi'an Lijun had 85 regularly produced products included in the Insurance Catalogue. As at the Latest Practicable Date, the Group had obtained production approvals for the production of three health care products which had not yet started mass production. The Group had not generated any sales from health care products for the Track Record Period.

The Group's finished medicines are used in the treatment of various diseases, in particular, microbial infection and cardiovascular disease and are mainly in the forms of tablet, capsule, granule, injection, powder for injection and lyophilized powder for injection. Though the Group produces a wide variety of pharmaceutical products, it is renowned for the manufacturing of antibiotics. All of the antibiotics currently produced by the Group are prescription medicines. Antibiotics manufactured by the Group include mainly macrolides and cepahlosporins, which are mainly applied in the treatment of various microbial infections. Lijunsha (利君沙), which is a kind of erythromycin ethylsuccinate, is one of the major antibiotics products of the Group and was awarded "Well-known Trademark" (馳名商標) in 2002 and "Ten Most Favored Brands Elected by the Public" (十大公眾最喜愛商標) in the PRC in 2002 and 2003. According to a research report by Orient Health e-Commerce (Beijing) Ltd. (東方健康電子商務(北京)有限公司), consumption amount of Lijunsha accounted for approximately 65.6% of the total consumption amount of erythromycin ethylsuccinate in sample hospitals in 16 cities in the PRC in 2003. For the three years ended 31 December 2004 and the six months ended 30 June 2005, sales of Lijunsha were approximately RMB531.9 million, RMB530.0 million, RMB489.8 million and RMB203.4 million, representing approximately 61.8%, 59.1%, 54.2% and 47.0% of the Group's total sales respectively.

With the aim to diversify the Group's product range, in April 2003, Xi'an Lijun entered into an agreement with Xi'an Yi Li Fertilizer Factory (西安毅力复合肥廠) ("Yi Li Fertilizer") and Shaanxi Weinan Pharmaceutical Factory (陝西省渭南地區製藥廠) ("Weinan Pharmaceutical") for the enlargement of the registered capital in Shaanxi Heng Xin Tang Pharmaceutical Co., Ltd. (陝西省恒心堂製藥有限公司) ("Shaanxi Heng Xin Tang") and the capital contribution by Xi'an Lijun. Both Yi Li Fertilizer and Weinan Pharmaceutical are Independent Third Parties. Subsequent to the takeover by Xi'an Lijun, Shaanxi Heng Xin Tang changed its name to Heng Xin Tang. The PRC legal adviser to the Company confirmed that all necessary approvals from the relevant authorities had been obtained for Xi'an Lijun's investment in Heng Xin Tang. Since then Heng Xin Tang has been owned as to 51% by Xi'an Lijun, 43.57% by Yi Li Fertilizer and the remaining 5.43% by Weinan Pharmaceutical. Heng Xin Tang is principally engaged in the manufacture of Chinese medicines in the PRC and, as at the Latest Practicable Date, it had obtained production approvals for the production of more than 90 Chinese medicines in the PRC, of which approximately 80 are regularly produced by Heng Xin Tang. As at the Latest Practicable Date, Heng Xin Tang had 55 regularly produced Chinese medicines included in the Insurance Catalogue. All of Heng Xin Tang's Chinese medicines are currently sold in the PRC. Before the takeover by Xi'an Lijun, Heng Xin Tang's production line was not up to the standard of the GMP. In order to comply with the GMP which became compulsory in July 2004, in the middle of 2004, Heng Xin Tang overhauled its production facilities. Heng Xin Tang obtained a GMP certificate for its production in December 2004 and re-commenced production in January 2005.

For the three years ended 31 December 2004, sales of the Group amounted to approximately RMB860.9 million, RMB896.3 million and RMB903.0 million respectively, representing a CAGR of approximately 2.4%. For the same period, profit attributable to equity holders of the Company were approximately RMB60.8 million, RMB70.3 million and RMB88.6 million respectively, representing a CAGR of approximately 20.7%. For the six months ended 30 June 2005, sales of the Group was approximately RMB433.1 million, representing a slight decline of 5.3% compared with the corresponding period in 2004. For the same period, the Group's profit attributable to equity holders of the Company was approximately RMB37.6 million, representing a 15.6% decrease from the corresponding period in 2004.

The Group's consolidated sales analysed by product categories for each of the three years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 were as follows:

	For the year ended 31 December						For the six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of finished medicines										
1. Antibiotics										
– Lijunsha (利君沙)	531,870	61.8	529,956	59.1	489,825	54.2	262,336	57.3	203,352	47.0
– Paiqi (派奇)	24,518	2.8	53,400	6.0	72,224	8.0	35,608	7.8	43,594	10.1
– Erythromycin tablets (紅霉素片)	59,169	6.9	65,036	7.3	52,761	5.8	25,846	5.6	28,688	6.6
– Cephalosporins (including Lijunpaitong and Lijunpaishu) (頭孢類(包括利君派同及利君派舒))	23,580	2.7	30,928	3.5	53,663	5.9	18,677	4.1	27,949	6.5
– Limaixian (利邁先)	23,608	2.7	24,269	2.7	12,688	1.4	7,303	1.6	8,609	2.0
– Other antibiotics	23,561	2.7	16,460	1.8	21,365	2.4	12,444	2.7	12,331	2.8
Sub-total	686,306	79.6	720,049	80.4	702,526	77.7	362,214	79.1	324,523	75.0
2. Other finished medicines	123,004	14.3	118,799	13.3	126,061	14.0	60,537	13.2	65,960	15.2
Sub-total	809,310	93.9	838,848	93.7	828,587	91.7	422,751	92.3	390,483	90.2
Sale of bulk pharmaceuticals										
3. Tetracycline hydrochloride (鹽酸四環素)	32,555	3.8	24,392	2.7	20,630	2.3	13,532	3.0	5,444	1.3
4. Erythromycin thiocyanate (高力霉素)	6,000	0.7	21,205	2.4	26,985	3.0	10,636	2.3	17,357	4.0
5. Other bulk pharmaceuticals	5,962	0.7	3,043	0.3	13,227	1.5	2,279	0.5	12,813	3.0
Sub-total	44,517	5.2	48,640	5.4	60,842	6.8	26,447	5.8	35,614	8.3
Sale of Chinese medicines	–	0.0	2,740	0.3	7,600	0.8	5,279	1.2	4,447	1.0
Sale of raw materials and by-products	2,218	0.3	1,293	0.1	1,473	0.2	630	0.1	780	0.2
Processing income	4,818	0.6	4,786	0.5	4,504	0.5	2,424	0.6	1,768	0.3
Total	860,863	100.0	896,307	100.0	903,006	100.0	457,531	100.0	433,092	100.0

Sales and marketing

The Group's products including finished medicines and Chinese medicines are primarily sold to its appointed distributors in the PRC. Such appointed distributors then distribute the Group's products directly or indirectly through sub-distributors to drug stores, hospitals and clinics in the PRC. As at the Latest Practicable Date, the Group did not own or operate any drug stores, hospitals and/or clinics. On the other hand, the bulk pharmaceuticals produced by the Group, other than those that are used by the Group for its production of finished medicines, are sold to overseas drugs manufacturers directly by itself or through its export agents. As at the Latest Practicable Date, acceptance from the Food and Drug Administration of the US has been obtained by the Group in respect of its production facilities for erythromycin and tetracycline hydrochloride. The Group has not applied for acceptance of the production facilities for other bulk pharmaceuticals from the Food and Drug Administration of the US as they have not been exported to the US. The Group intends to sell its health care products to its appointed distributors in the PRC.

The Group has established an extensive and reliable distribution network in the PRC for distribution of its products. As at the Latest Practicable Date, the Group maintained business relationship with approximately 404 major distributors in the PRC covering approximately 25 provinces or autonomous regions and four centrally administrative municipalities. The geographical distribution of the Group's major distributors in the PRC is as follows:

Regions	*Notes*	**Number of distributors**
North eastern China	*1*	42
Northern China	*2*	70
Central China	*3*	82
South western China	*4*	39
North western China	*5*	61
Eastern China	*6*	68
Southern China	*7*	42
Total		404

Notes:

1. In this prospectus, North eastern China mainly includes Heilongjiang, Jilin and Liaoning.

2. In this prospectus, Northern China mainly includes Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia.

3. In this prospectus, Central China mainly includes Henan, Anhui, Hubei, Hunan and Jiangxi.

4. In this prospectus, South western China mainly includes Sichuan, Yunnan, Guizhou and Chongqing.

5. In this prospectus, North western China mainly includes Gansu, Qinghai, Ningxia, Xinjiang and Shaanxi.

6. In this prospectus, Eastern China mainly includes Shandong, Zhejiang, Jiangsu, Fujian and Shanghai.

7. In this prospectus, Southern China mainly includes Guangdong and Guangxi.

Production

The Group has obtained all approvals and permits, including but not limited to the GMP certificates, Pharmaceutical Manufacturing Permits, Hygiene Permits and business licenses from the relevant approval authorities in the PRC, which are required under PRC laws and regulations for the commencement and continuation of the production of its products in the PRC. In addition, the Group had obtained and maintained all necessary permits and licenses for its operations throughout the Track Record Period.

The production facilities of Xi'an Lijun, the principal operating subsidiary of the Company, are currently located in Xi'an, Shaanxi Province, the PRC with a total site area of approximately 123,939 sq.m.. The production facilities of Heng Xin Tang are located in Weinan, Shaanxi Province, the PRC with a total site area of approximately 53,333 sq.m.. As at the Latest Practicable Date, the Group's production plant in Xi'an had seven production lines for the manufacture of pharmaceutical products and health care products whereas the production plant in Weinan, had one production line for the manufacture of Chinese medicines. Xi'an Lijun and Heng Xin Tang have obtained all GMP certification required under PRC laws and regulations for the commencement and continuation of the production of their products, details of which are set out in the paragraphs headed "Production" in the section headed "Business" in this prospectus.

The key raw materials for the Group's products are erythromycin, bulk cephalosporins, aspirin, anagine, tetrahydrofuran and starch. The Group sources such raw materials from chemical or pharmaceutical manufacturers in the PRC. As at the Latest Practicable Date, the Group maintained business relationship with more than 200 suppliers. For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, cost of direct materials consumed amounted to approximately RMB264.6 million, RMB289.8 million, RMB309.1 million and RMB156.5 million, representing approximately 67.2%, 69.4%, 68.8% and 71.6% of the Group's total cost of goods sold respectively.

Research and Development

The Group is committed to devoting considerable effort and resources in research and development so as to enable the Group to keep abreast of technology development in the pharmaceutical industry and to enhance its competitiveness. The Group focuses on improving the quality of its existing products and developing new products to meet continuous changing market demand. The Group has established a research and development department comprising 62 employees as at the Latest Practicable Date. In addition to its research and development department, the Group also cooperates with universities and research institutions to carry out certain research and development works.

The sources of the product formulae or production methods of the Group's existing pharmaceutical products include (i) injection by Rejoy Group from Shaanxi Xi'an Pharmaceutical Factory at the time of the Group's establishment, (ii) development by the Group itself or cooperation with research institutions or universities, which are Independent Third Parties, or (iii) acquisition from Independent Third Parties such as research institutions. During the Track Record Period, the Group had acquired approximately 10 product formulae or production methods from Independent Third Parties. As at the Latest Practicable Date, the Group had applied for patents for certain product formulae and production methods, details of which are set out in the paragraph headed "Research and development" in the section headed "Business" in this prospectus. Such product formulae and production methods were either developed by the Group itself or acquired from Independent Third Parties such as research institutions. The intellectual property rights of such product formulae and production methods are owned by the Group.

Save for the aforesaid product formulae and production methods for which applications for patent have been made by the Group, the Group's remaining pharmaceutical products (product formulae and/or production methods) are not patented in the PRC because they were mainly imitations of pharmaceutical products (including product formulae and/or production methods) developed by other pharmaceutical manufacturers, in particular those overseas pharmaceutical manufacturers, of which no patents for such products (including product formulae and/or production methods) have been registered in the PRC or such patents in the PRC have been expired. As advised by the PRC legal adviser to the Company, as patents for such product formulae and/or production methods have not been granted in the PRC and no "administrative protection" has been granted in the PRC pursuant to the "Regulations on Administrative Protection of Pharmaceuticals" (藥品行政保護條例), production of such products by the Group in the PRC does not infringe any applicable patent rules and regulations in the PRC. The Directors have confirmed that, as at the Latest Practicable Date: (i) the Group did not produce any products based on PRC-patented products (including product formulae and/or production methods) developed by other pharmaceutical manufacturers of which the patent period has not expired; (ii) the Group does not sell any products outside the PRC which incorporate the product formulae and/or production methods that are not protected by patent in the PRC but may be protected overseas; (iii) to the best knowledge of the Directors, all sales of the Group outside the PRC do not involve product formulae and/or production methods that are protected by patents in the countries where the Group's products are sold; (iv) to the best knowledge of the Directors, the Group has not received any indications, claims or complaints that the Group's production or use of any product formulae and/or production methods violated the patent rights of any third parties (both in the PRC and outside the PRC); and (v) to the best knowledge of the Directors, the Group has not been involved in any administrative or legal proceedings in respect of the same (both in the PRC and outside the PRC).

Most of Heng Xin Tang's existing Chinese medicines are not newly-developed products and they are mainly based on traditional production formulae or methods that do not qualify and/or fulfill the requirements for applying patents as stipulated by the State Intellectual Property Office of the PRC (國家知識產權局).

As at the Latest Practicable Date, the Group had approximately 36 products under active development. The Directors expect that, subject to the granting of new medicine certificates and production permits from SFDA, these new products can be launched in the PRC market.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider that the success of the Group is primarily attributable to the following factors:

- **Strong brand recognition**

  Since the establishment of the Group, it has developed a wide range of pharmaceutical products. The Directors consider that most of the Group's products have established solid reputation in the pharmaceutical market in the PRC. Lijunsha, being one of the major pharmaceutical products of the Group, was awarded "Well-known Trademark" (馳名商標) and "Ten Most Favored Brands Elected by the Public" (十大公眾最喜愛商標) in the PRC. The Directors consider that the strong brand reputation of the Group provides it with a firm foothold for any future business expansion.

- **Extensive distribution network**

  The Group's products including finished medicines and Chinese medicines are primarily sold to its appointed distributors in the PRC. The Group intends to sell its health care products to its appointed distributors in the PRC. As at the Latest Practicable Date, the Group maintained business relationships with approximately 404 major distributors in the PRC covering approximately 25 provinces or autonomous regions and four centrally administrative municipalities. The Directors believe that such established distribution network of the Group would provide a solid foundation for the Group to expand its business operations.

- **Established long-term business relationships with key suppliers**

  The Group has developed long-term relationships with its major suppliers. The Directors believe that such established long-term relationships will secure the Group with constant supply of reliable quality of raw materials at a reasonable price.

- **Technology knowhow and research capability**

  The Group's management realises the importance of research and development in respect of the Group's business and accordingly, they are committed to devoting human and financial resources to research and development so as to maintain the market competitiveness of the Group's products. The Group has an in-house research and development team comprising of experts who are specialised in the area of chemical and pharmaceutical technology. In addition, the Group has entered into co-operation agreements with Peking University (北京大學), General Hospital of PLA (解放軍總醫院), China-Japan Friendship Hospital (中日友好醫院), Xi'an Jiaotong University (西安交通大學), East China University of Science & Technology (華東理工大學), Sichuan University (四川大學) and Beijing Pureen Technology Co., Ltd. (北京真綠天遠科技有限公司) with the aim to develop new products. Leveraging on the Group's technology knowhow and the support from the universities and research institutes, the Directors believe that the Group has the capability to develop new pharmaceutical products with high growth and profit margin in the future.

- **Experienced management team**

  The Directors consider that the Group's senior management team has in-depth knowledge and extensive experience in the pharmaceutical industry. The Directors believe that the experience of the Group's senior management enables the Group to formulate flexible business strategies in order to maintain the competitiveness of the Group in the competitive pharmaceutical industry in the PRC. In addition, there are certain similarities in the business operations of pharmaceutical products and Chinese medicines including but not limited to (i) management techniques and philosophy; (ii) business and operation model; (iii) compliance requirements under the GMP; (iv) research and development procedures; (v) stock control and logistics system; (vi) procedures in relation to application of approval for new medicines (vii) quality control requirements and standards; (viii) sales and marketing activities and channels; and (ix) quality control monitoring procedures. As such, the Directors believe that the Directors' extensive experience in the pharmaceutical industry can be applied in the development of Chinese medicines.

- **Diversified product range**

  The Group has developed and maintained a wide and diversified product range including pharmaceutical products, bulk pharmaceuticals, Chinese medicines and health care products. The Directors are of the view that the wide and diversified range of the Group's products can minimize and reduce the reliance on a single product or specific products and accordingly, minimize the business risks.

- **GMP certification**

  Xi'an Lijun and Heng Xin Tang have obtained all GMP certification required under PRC laws and regulations for the commencement and continuation of the production of their products, details of which are set out in the paragraphs headed "Production" in the section headed "Business" in this prospectus. The accreditation of GMP certification indicates that the Group's pharmaceutical products have achieved certain standards and quality which are recognised by the PRC government. The Directors consider that pharmaceutical market may consolidate as a result of the elimination of those small or medium scale pharmaceutical manufacturers in the PRC who fail to obtain the GMP certification in the PRC. The Directors believe that the Group may benefit from the expected decrease in competition.

FUTURE PLANS AND PROSPECTS

In light of the rising living standards and the increasing health consciousness in the PRC, the Directors believe that there is increasing potential in the pharmaceutical products and the Chinese medicines markets in the PRC in which the Group currently operates. In respect of the antibiotics market, the Directors consider that it will grow steadily in line with the growth in the pharmaceutical industry and provide a stable income to the Group.

Development of finished medicines and health care products

Notwithstanding that the competition in the pharmaceutical industry is keen, the Directors is optimistic about the Group's business prospects as people in the PRC are becoming more health-conscious. The Directors consider that the Group should continue to develop new products in order to meet the changes and demand of customers. The Group intends to set up three new production lines for production of new types of finished medicines which focus on OTC medicines and health care products. These three production lines include one for the production of spray form products, one for the production of oral solution products and the other one for the production of soft capsule form products. The Directors believe that such expansion plan would improve the Group's competitiveness in the pharmaceutical industry.

Besides, to cater for the increasing demands of Paiqi, the Group intends to increase the production capacities of lyophilized powder for injection. Upon completion of the expansion of the production line, the Directors expect the Group's annual production capacity on lyophilized powder for injection will be increased from 10,000,000 injections as at the Latest Practicable Date to 20,000,000 injections.

Development of bulk pharmaceuticals

In order to further enhance the Group's competitive strengths by reducing its costs of raw materials, the Directors intend to set up a new production line for production of several kinds of bulk pharmaceuticals which are the key raw materials of the Group's antibiotics. The Directors expect that such vertical expansion would be beneficial to the Group as the Group's production costs will be reduced and its profitability should be improved.

As mentioned above, the Group will establish a new production line which will be able to produce several kinds of bulk pharmaceuticals. In addition to applying such production line to produce bulk pharmaceuticals for the Group's internal use, the Group also intends to use such production line to produce new types of bulk pharmaceuticals for sale in order to diversify its product range of bulk pharmaceuticals for exports.

Development of Chinese medicines

Leveraging on the Group's experience in the pharmaceutical industry and taking into account the business prospects of Chinese medicines, the Group has diversified its business into manufacture and sale of Chinese medicines. Since July 2003, Xi'an Lijun became a 51% shareholder of Heng Xin Tang and it is intended that Heng Xin Tang will become the Group's platform for the development of Chinese medicine business in the PRC. In light of the foregoing, the Group intends to continue to devote resources to improve existing products and production technology of Chinese medicines, to improve and expand its existing production facilities of Chinese medicines, to develop new forms of Chinese medicines, and to promote the brand name of the Group's Chinese medicines.

Enhancement and development of the Group's sales networks in the PRC

As at the Latest Practicable Date, the Group had 26 sales offices and 404 distributors in the PRC which cover major cities in approximately 25 provinces or autonomous regions and four centrally administrative municipalities. To further explore the PRC pharmaceutical markets and to increase the market share of the Group, the Group intends to enhance and further develop its distribution network by (1) strengthening the business relationship with its existing distributors and ultimate customers; (2) employing additional sales and marketing staff and appointing additional distributors to further penetrate its products into smaller cities in the PRC ; and (3) acquiring drug stores.

In respect of the Group's plans to appoint additional distributors to further penetrate its products into smaller cities in the PRC, the Group targets to expand its distribution network from its existing 404 distributors to 800 distributors who in turn have their own sub-distributors. The Directors hope to expand the current network to the scale of 2,000 distributors and sub-distributors in total.

The Directors consider that the living standards and health consciousness in the PRC are increasing and accordingly, the demand for formal, sizable or registered drug stores will also increase. As such, the Group is optimistic about the business prospects of drug stores in the PRC. As at the Latest Practicable Date, the Group did not own or operate any drug stores. Given the fact that the existing distribution network of the Group covers approximately 25 provinces or autonomous regions and four centrally administrative municipalities in the PRC, the Group intends to acquire a total of approximately 30 drug stores in next few years to cover the aforesaid provinces and centrally administrative municipalities as part of its vertical expansion plan. At present, the Group plans to acquire approximately four, six, ten and ten drug stores in 2006, 2007, 2008 and 2009 respectively. The Group currently intends to acquire drug stores one-by-one instead of acquiring several drug stores at the same time so as to reduce the business risk of the Group. However, the Directors consider that the actual pace of acquisition may vary from the proposed plan subject to the business environment at the time of acquisition and the performance of the acquired drug stores. As at the Latest Practicable Date, the Group had not identified any target drug stores. The Directors expect that the distribution network of the Group in the PRC would be enhanced by acquisition of drug stores.

The Directors' plan is that the drug stores to be acquired in the future will mainly focus on selling the Group's OTC medicines and health care products whereas the distributors of the Group will be mainly responsible for the distribution of the Group's prescription medicines. Accordingly, the Directors consider that there will not be any material internal competition between the drug stores to be acquired in the future and the Group's distributors.

In addition, to improve its management of sales orders and sales performance and to better monitor its customers' information, the Group plans to set up centralised information and management systems, including hardware and software, for the sales network.

Enhancement of research and development capability

The Directors consider that research and development capability is one of the key factors to succeed in the pharmaceutical industry and is important for maintaining market competitiveness. Accordingly, the Group will place great emphasis in strengthening its research and development capability to improve existing and develop new pharmaceutical technology. The Group will enhance the co-operation with universities and research institutes in the PRC to develop new products or technology which will be applied by the Group in product development.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

With the additional capital raised from the Share Offer and elevated corporate profile after the Listing, the Directors believe that the Group will be in a better position to enhance its competitiveness and to implement the Group's plans as set out above and in the section headed "Future plans" in this prospectus.

Assuming that the Over-allotment Option is not exercised, the net proceeds of the Share Offer, after deducting the related expenses to be borne by the Company, are estimated to be approximately HK$123.3 million (based on an Offer Price of HK$2.09, being the mid-point of the stated range of the Offer Price of between HK$1.98 and HK$2.20). The Directors presently intend to apply such net proceeds as follows:

- approximately HK$85.6 million to set up three new production lines for production of new types of finished medicines and health care products and expand the production capacity of lyophilized powder for injection comprising;
    - as to approximately HK$3.8 million for set up of the new production line of spray form products;

  - as to approximately HK$43.3 million for set up of the new production line of oral solution products;

  - as to approximately HK$21.2 million for set up of the new production line of soft capsule form products; and

  - as to approximately HK$17.3 million for expansion of production capacities of lyophilized powder for injection.

- approximately HK$19.2 million to finance the improvement of existing products and production technology of Chinese medicines, the improvement and expansion of the Group's existing production facilities of Chinese medicines, the development of new forms of Chinese medicines, and the promotion of the brand name of the Group's Chinese medicines;

- approximately HK$9.2 million to finance the enhancement and expansion of the Group's distribution network and approximately HK$5.8 million for the set up of centralised information and management systems for its sales networks; and

- the balance of approximately HK$3.5 million as additional working capital of the Group.

If the Offer Price is fixed at the maximum of HK$2.20, the Company will receive additional net proceeds of approximately HK$7.7 million. The Directors intend to apply the additional net proceeds to be raised therefrom as additional working capital of the Group. In the event that the Offer Price is fixed at the minimum of HK$1.98, the net proceeds will be reduced by approximately HK$7.7 million. In such circumstances, the Directors intend to reduce the application of the net proceeds as additional working capital of the Group and the enhancement and expansion of the Group's distribution network.

In the event the Over-allotment Option is exercised in full, the Group will receive additional net proceeds of approximately HK$21.4 million based on an Offer Price of HK$2.09 being the mid-point of the stated range of the Offer Price of between HK$1.98 and HK$2.20. The Directors intend to apply all of the additional net proceeds to finance the enhancement of the Group's research and development capability to improve existing and develop new pharmaceutical technology.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short term interest-bearing deposits with licensed banks in Hong Kong or the PRC.

Other than the future plans disclosed in this paragraph, which will be financed mainly by the net proceeds from the Share Offer, the Directors plan to finance other future plans disclosed in the paragraph headed "Future plans and prospects" under this section, including (but not limited to) the establishment of a new production line for bulk pharmaceuticals and the acquisition of drug stores, mainly by the Group's internally generated fund.

TRADING RECORD

The following table summarises the Group's consolidated sales and results for each of the three years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

		Year ended 31 December			Six months ended 30 June	
		2002	**2003**	**2004**	**2004**	**2005**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Sales	*1*	860,863	896,307	903,006	457,531	433,092
Cost of goods sold		(393,723)	(417,771)	(449,318)	(217,681)	(218,824)
Gross profit		467,140	478,536	453,688	239,850	214,268
Other gains – net		1,160	2,399	2,100	1,285	431
Selling and marketing costs		(254,542)	(260,843)	(220,599)	(123,344)	(102,678)
General and administrative expenses		(95,734)	(113,104)	(96,686)	(47,023)	(48,784)
Operating profit		118,024	106,988	138,503	70,768	63,237
Finance costs		(1,507)	(3,933)	(7,111)	(2,944)	(4,744)
Share of loss of an associated company		–	(265)	–	–	–
Profit before income tax		116,517	102,790	131,392	67,824	58,493
Income tax expense		(40,493)	(15,056)	(22,331)	(12,300)	(11,885)
Profit for the year/period		76,024	87,734	109,061	55,524	46,608
Attributable to:						
Equity holders of the Company		60,819	70,333	88,632	44,498	37,556
Minority interest		15,205	17,401	20,429	11,026	9,052
		76,024	87,734	109,061	55,524	46,608
Dividends		52,725	63,270	89,774	–	4,218

Note:

1. Sales represents the revenue from sales of pharmaceutical products, bulk pharmaceuticals and Chinese medicines in the PRC and exports of bulk pharmaceuticals, sales of raw materials and by products and processing income, net of value-added tax and discounts.

RISK FACTORS

The Directors consider that there are certain risks involved in the Group's business and the Share Offer, which are set out in the section headed "Risk factors" of this prospectus. These risks can be divided into four main categories including (i) risks relating to the Group; (ii) risks relating to the industry; and (iii) risks relating to the PRC; and (iv) risks relating to the Share Offer which are summarised below:

Risks relating to the Group

- Reliance on key management
- Reliance on distributors
- Reliance on Lijunsha
- Lease of land use rights from Rejoy Group
- Defects in legal titles of the Group's properties in the PRC
- Reliance on suppliers
- Supply and price fluctuations of raw materials
- Uncertainty regarding admission of existing products or new products of the Group to the Insurance Catalogue
- Reliance on Rejoy Group, the Controlling Shareholders and their respective associates
- Reliance on research institutions and universities for the research and development of new products
- Research and development risk
- Credit risks
- Sustainability of profitability
- Product substitution
- Reliance on the PRC market
- Reliance on quality medicinal raw materials for production of Chinese medicine products
- Product liability

- Trademarks and counterfeit products
- Intellectual property right protection
- Preferential tax treatment
- Environmental protection regulations
- Dividends

Risks relating to the industry

- Regulation of SFDA and other government authorities
- Compliance with the GMP
- Price control
- Quality control by SFDA
- Competition
- Rapid advancement of technology

Risks relating to the PRC

- Political, economic and social considerations
- Evolving nature of the PRC legal system
- State Control of currency conversion and future movements in exchange rates
- The PRC entry to the WTO

Risks relating to the Share Offer

- No prior public market for the Shares
- Dilution of shareholders' interest as a result of additional equity fund raising
- No undue reliance upon industry statistics
- Forward-looking statements involve uncertainty and risk
- Gap between the Price Determination Date and the Listing Date

SHARE OFFER STATISTICS (based on the Offer Price)

	Based on an Offer Price of HK$1.98 per Share	Based on an Offer Price of HK$2.20 per Share
Market capitalization of the Shares *(Note 1)*	HK$554.4 million	HK$616.0 million
Pro forma price/earnings multiple *(Note 2)*	6.51 times	7.23 times
Unaudited pro forma adjusted net tangible asset value per Share *(Note 3)*	HK$1.42	HK$1.47

Notes:

1. The calculation of the market capitalization of the Shares is based on 280,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer but does not take into account any Shares which may be issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme.

2. The calculation of price/earnings multiple on a pro forma basis is based on the unaudited pro forma earnings per Share of approximately HK$0.3043 (equivalent to approximately RMB0.3165, as referred to in the paragraph headed "Unaudited pro forma earnings per share" in Appendix II to this prospectus) at the respective Offer Price of HK$1.98 and HK$2.20 per Share, and based on the assumption set out in note 1 above.

3. The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the subsection headed "Unaudited pro forma adjusted net tangible assets" under the section headed "Financial Information" in this prospectus and on the basis of a total of 280,000,000 Shares in issue (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer at the respective Offer Price of HK$1.98 and HK$2.20 per Share but without taking into account for any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

4. The conversion of RMB into HK$ is based on the approximate exchange rate of HK$1.00 to RMB1.04.

DIVIDEND POLICY

The dividends declared by one of the subsidiaries of the Group in respect of each of the three years ended 31 December 2004 and the six months ended 30 June 2005 amounted to approximately RMB52,725,000, RMB63,270,000, RMB89,774,000 and RMB4,218,000 respectively, representing approximately 69.4%, 72.1%, 82.3% and 9.0% respectively of the profit for the year/period. Payment of such dividends was financed by internal resources of the Group.

It is the present intention of the Directors that, in future, interim and final dividends (if any) will be paid in or around October and May of each financial year respectively, and that the declaration of payment and amount of future dividends are expected to be approximately 50% of the profit attributable to Shareholders for each financial year. However, the declaration of payment and amount of future dividends will be subject to the discretion of the Directors and the approval of the Shareholders and will be dependent upon the Group's earnings, financial condition, future development plans, cash requirements and availability, the relevant laws and all other relevant factors. The Directors expect that the payment of dividends will not have any material adverse impact on the Group's gearing level, indebtedness and liquidity.

In this prospectus, the following expressions have the following meanings set out below, unless the context otherwise requires:

"Articles"	the articles of association of the Company as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the capitalisation issue referred to in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 16 October 2005" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Law"	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended from time to time
"Company"	Lijun International Pharmaceutical (Holding) Co., Ltd. 利君國際醫藥(控股)有限公司, an exempted company incorporated in Cayman Islands on 28 September 2004 with limited liability under the Companies Law
"Controlling Shareholders"	Prime United Industries Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited who in aggregate own approximately 64.36% and 48.27% equity interest in the Company immediately before and after completion of the Capitalisation Issue and the Share Offer respectively (without taking into account of the Shares to be issued pursuant to any exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme)
"Despatch Date"	the date on which the share certificates and/or refund cheques are despatched to the applicants of the Share Offer
"Director(s)"	the director(s) of the Company

"Group"	the Company and its subsidiaries or, where the context so requires or permits, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, such subsidiaries of the Company and the businesses carried on by them
"Heng Xin Tang"	Shaanxi Lijun Heng Xin Tang Pharmaceutical Co., Ltd. (陝西利君恒心堂藥業有限公司) (formerly known as Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd. (陝西省恒心堂製藥有限公司)), a company established in the PRC with limited liability and a non wholly-owned subsidiary of the Company
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	party(ies) who is/are not connected with any of the Directors, chief executives and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules)
"Insurance Catalogue"	National Basic Medical Insurance Drug Catalogue (國家基本醫療保險藥品目錄), a catalogue of medicines issued by the Ministry of Labour and Social Security in the PRC on 25 May 2000 as amended in 2004 pursuant to the "Notice on the Issue of the National Basic Medical Insurance Drug Catalogue" (關於印發國家基本醫療保險目錄的通知)
"Latest Practicable Date"	23 November 2005, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
"Lead Manager"	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed to conduct Type 1 (Dealing in Securities) and Type 4 (Advising on Securities) regulated activities under the SFO, being the lead manager of the Share Offer
"Listing"	the proposed listing of the Shares on the Main Board
"Listing Committee"	the listing sub-committee of the board of the Stock Exchange
"Listing Date"	the date on which dealings in the Shares first commence on the Stock Exchange, which is expected to be 20 December 2005
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time

"Main Board"	the stock market operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market ("GEM") of the Stock Exchange. For the avoidance of doubt, the Main Board excludes GEM
"Memorandum"	the memorandum of association of the Company
"Offer Price"	the final offer price per Offer Share (excluding brokerage of 1%, SFC transaction levy of 0.005% and the Stock Exchange trading fee of 0.005% thereon) of not more than HK$2.20 per Share and expected to be not less than HK$1.98 per Share, such price to be agreed upon by the Company and the Lead Manager (on behalf of the Underwriters) on or before the Price Determination Date at which price the Offer Shares are to be subscribed for and issued by the Company pursuant to the Share Offer
"Offer Shares"	the Public Offer Shares and the Placing Shares and "Offer Share" means each and any one of them
"Over-allotment Option"	the option granted by the Company to the Placing Underwriters and exercisable by the Lead Manager (for and on behalf of the Placing Underwriters) pursuant to which the Company may be required to issue up to an additional 10,500,000 new Shares (representing 15% of the Offer Shares) to cover over-allotment allocations in the Placing, details of which are described in the section headed "Structure of the Share Offer" in this prospectus
"Over-allotment Shares"	up to an aggregate of 10,500,000 additional new Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option
"Placing"	the conditional placing by the Company through the Placing Underwriters of the Placing Shares at the Offer Price with investors as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing and Underwriting Agreement"	the conditional placing and underwriting agreement dated 1 December 2005 between, inter alia, the Company and the Underwriters relating to the Share Offer, details of which are set out in the section headed "Underwriting" in this prospectus

"Placing Shares"	a total of 63,000,000 new Shares (subject to re-allocation as described in the section headed "Structure of the Share Offer" in this prospectus) initially being offered for subscription and purchase under the Placing
"Placing Underwriters"	the Lead Manager and the other underwriters of the Placing named in the sub-paragraph headed "Placing Underwriters" under the paragraph headed "Underwriters" in the section headed "Underwriting" in this prospectus
"PRC" or "China"	the People's Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
"Price Determination Date"	is the date, expected to be on or around 7 December 2005, on which the Offer Price is fixed for the purpose of the Share Offer, or such later time as the Company and the Lead Manager (on behalf of the Underwriters) may agree, but in any event no later than 5:00 p.m. on 9 December 2005
"Public Offer"	the offer to the public in Hong Kong of the Public Offer Shares for subscription for cash at the Offer Price, payable in full on application, on and subject to the terms and conditions set out in this prospectus and in the related application forms
"Public Offer Shares"	the 7,000,000 new Shares (subject to re-allocation as described in the section headed "Structure of the Share Offer" in this prospectus) initially being offered for subscription under the Public Offer
"Public Offer Underwriters"	the Lead Manager and the other underwriters of the Public Offer named in the sub-paragraph headed "Public Offer Underwriters" under the paragraph headed "Underwriters" in the section headed "Underwriting" in this prospectus
"Rejoy Group"	Rejoy Group Limited Liability Company (利君集團有限責任公司), a company established in the PRC with limited liability and a substantial shareholder of Xi'an Lijun. Further details on Rejoy Group are set out in the paragraph headed "Relationship with Rejoy Group, the Controlling Shareholders and their respective associates" in the section headed "Business" in this prospectus

"Rejoy Technology"	Xi'an Rejoy Technology Investment Co. Ltd. (西安利君科技投資有限公司), a company established in the PRC with limited liability and the entire registered capital of which is wholly-owned by the beneficial shareholders of Prime United Industries Limited, one of the Controlling Shareholders
"Reorganisation"	the reorganisation of the corporate structure of the Group in preparation for the Listing as referred to in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus
"SFC"	the Securities and Futures Commission of Hong Kong
"SFDA"	State Food and Drug Administration (國家食品藥品監督管理局)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 16 October 2005, the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus
"SPC"	Shaanxi Pharmaceutical Company (陝西省醫藥總公司), a state-owned enterprise under the direct supervision of the Shaanxi Provincial Government and which controls and holds all the interests in Rejoy Group
"Stock Borrowing Agreement"	the stock borrowing agreement between the Lead Manager and Prime United Industries Limited dated 1 December 2005
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary" or "Subsidiaries"	has the meaning as defined in the Companies Ordinance
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Track Record Period"	the period comprising the three financial years ended 31 December 2004 and the six months ended 30 June 2005

"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"US"	the United States of America
"VXL" or "Sponsor"	VXL Financial Services Limited (formerly known as KE Capital (Hong Kong) Limited), which is a licensed corporation to carry out Type 6 (Advising on Corporate Finance) regulated activities under the SFO, being the sponsor to the Share Offer
"WTO"	World Trade Organisation
"Xi'an Lijun"	Xi'an Lijun Pharmaceutical Co., Ltd (西安利君製藥有限責任公司) (formerly known as Xi'an Lijun Pharmaceutical Stock Co., Ltd. (西安利君製藥股份有限公司)), a company established in the PRC with limited liability and owned as to 80% by the Company and 20% by Rejoy Group
"HK$" and "HK cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	US dollars, the lawful currency of the US
"sq.ft." and "sq.m."	square feet and square metres, respectively
"%"	per cent

Unless otherwise specified, the translation of United States dollars into Hong Kong dollars in this prospectus is based on the approximate exchange rate of HK$7.8 to US$1.00 and the translation of HK$ into RMB in this prospectus is based on the approximate exchange rate of HK$1.00 to RMB1.04. All currency translations provided in this prospectus are provided by way of illustration only and no representation is made, and none should be construed as being made, that the US dollars and RMB amounts set out in this prospectus could have been or could be converted into Hong Kong dollars at any particular rate on such date or any other date.

For ease of reference, the English names of PRC established companies, government authorities and departments, entities and documents have been included in the prospectus as translations of their Chinese names for identification purpose only. In the event of any inconsistency, the Chinese version shall prevail.

This glossary contains explanation of certain technical terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to the standard definitions with industry or usage of these terms.

"antibiotics"	a substance, such as penicillin or streptomycin, produced by or derived by from certain fungi, bacteria, and other microorganism, or produced by chemical process, that can destroy or inhibit the growth of other microorganisms. Antibiotics are widely used in the prevention and treatment of infectious diseases
"blending"	a process in which raw materials with the same quality and specification are blended in order to produce well-blended intermediates or bulk pharmaceuticals
"capsules"	drugs or empty capsules filled with raw materials or preparations in capsule materials
"cardiovascular"	physiology pertaining to the heart and blood vessels
"cephalosporins"	a category of semi-synthetic antibiotics characterised by containing a core ring molecular structure derived from 7-aminocephalosporanic acids. Cephalosporins are used to treat systemic infections caused by susceptible microorganisms including respiratory tract infections, ear, nose and throat infections, urinary tract infections, gynaecological and obstetric infections and skin, bone and soft tissue infections
"clinical trial"	a research study for validating or investigating the therapeutic effects and undesirable effects of the test drugs to evaluate the therapeutic value and safety of such drug
"coating"	the coating of tablets (core tablets), pellets and granules with suitable coating materials
"disinfection"	to cleanse so as to destroy or prevent the growth of disease-carrying microorganisms
"filtering"	a process in which physical methods are used to force a mixture of solid and liquid to pass through a porous medium in order to achieve deposition of solid or liquid retention to separate the solid and liquid
"GMP"	Good Manufacturing Practice (藥品生產質量管理規範), which are guidelines and regulations from time to time issued by health authorities relating to the quality control in the production of pharmaceutical products

"granulation"	a process in which raw materials in forms such as powder and aqueous solution are processed and made into granules of certain shapes and sizes; it gathers small granules into products of larger granules
"granules"	preparations in dehydrated granules in a certain size which were made with drugs and suitable raw materials
"injection"	sterilising solution, emulsion or suspension mixture made with drugs for injection, or aseptic powder or concentrated solutions for making solution or suspension mixture before use
"macrolide"	a category of antibiotics whose activity stems from the presence of a *macrolide ring*, a large lactone ring to which one or more deoxy sugars, usually cladinose and desosamine, are attached. The lactone ring can be either 14, 15 or 16-membered. Macrolides are used to treat systemic infections caused by susceptible microorganisms including respiratory tract infections, ear, nose and throat infections, urinary tract infections, gynaecological and obstetric infections and skin, bone and soft tissue infections
"OTC medicines"	drugs which can be safely consumed by users in accordance with the drugs' labels and instructions, the purchase of which does not require any doctor's prescription
"prescription drugs"	drugs which are normally available for purchase and consumption only on doctor's prescription
"SARS"	severe acute respiratory syndrome
"sieving"	a process in which mixtures of granules in different sizes were separated by screening nets according to their size
"sterilisation"	the act or procedure of making free from live bacteria or other microorganisms

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

Reliance on key management

The success of the Group, to a substantial extent, is attributable to the expertise and experience of the executive Directors, namely Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, certain other senior management, and key research and technical personnel who have extensive experience in the pharmaceutical industry. Each of the executive Directors has entered into a service contract with the Group for an initial term of three years commencing from 16 October 2005 unless terminated in accordance with the terms of their respective service contracts. The loss of services of any of the executive Directors may have a material adverse effect on the Group's operations and future profitability.

Reliance on distributors

All the Group's products including finished medicines and Chinese medicines are currently sold in the PRC through its appointed distributors. Please refer to the paragraph headed "Sales and marketing" in the section headed "Business" in this prospectus for further details. As at the Latest Practicable Date, the Group did not own and/or operate any drug stores, hospitals and/or clinics for distribution of the Group's products. The Group has established long term business relationships with most of its major distributors. However, potential investors should note that there is no assurance that the Group will be able to maintain such relationships in the future. In the event that the major distributors of the Group cease to distribute the Group's products for whatever reasons and the Group is unable to find suitable replacement distributors, the Group's business and results of operations will be adversely affected.

Reliance on Lijunsha

For the Track Record Period, sales of Lijunsha were approximately RMB531.9 million, RMB530.0 million, RMB489.8 million and RMB203.4 million, representing approximately 61.8%, 59.1%, 54.2% and 47.0% of the Group's total sales respectively. During the Track Record Period, sales of Lijunsha experienced a downward trend because the Group has been developing new products and plans to focus on the promotion of a number of emerging products with the aim of gradually lowering its dependence on Lijunsha. In the event that the market demand for erythromycin ethylsuccinate and Lijunsha fails to sustain for whatever reasons in the future, the Group's business and profitability may still be seriously affected.

Lease of land use rights from Rejoy Group

Xi'an Lijun has leased land use rights ("Land Use Rights") from Rejoy Group for the purposes of production, office and storage, details of which have been disclosed in the paragraph headed "Related party transactions and connected transactions" under the section headed "Business" in this prospectus. Given the Land Use Rights are important for the Group's operation, Rejoy Group agreed to grant an undertaking to the Group prior to the Listing pursuant to which (i) Rejoy Group undertakes not to transfer the whole or part of the Land Use Rights to any other parties so long as the Land Use Rights are leased to the Group; (ii) Rejoy Group grants the Group a first right to renew the relevant Land Use Rights rental agreements upon their expiry on the same terms offered by the Group which are no less favourable than those offered by Independent Third Parties; and (iii) Rejoy Group grants the Group a first right to purchase the Land Use Rights on the same terms offered by the Group which are no less favourable than those offered by Independent Third Parties.

Potential investors should note that if other third parties offer better terms to Rejoy Group so that the Group is unable to renew the Land Use Rights rental agreements with Rejoy Group or the Group has to adjust the existing terms to the extent that the adjusted terms will be the same as offered by other third parties upon the expiry of the existing Land Use Rights rental agreements, the Group's business operation may be affected.

Defects in legal titles of the Group's properties in the PRC

1. Xi'an Lijun entered into a land use rights tenancy agreement and a supplemental agreement (the "Tenancy Agreement") pursuant to which Xi'an Lijun agreed to rent a parcel of land with a site area of approximately 4,020 sq.m. from Xi'an Shi Chenjiazhai Villager Committee (西安市蓮湖區陳寨村村民委員會) for a term of 20 years at an annual rental of RMB50,000 commencing from 1 January 1999 and expiring on 31 December 2019. Xi'an Lijun is constructing a 2-storey storehouse (the "Storehouse") of approximately 2,784 sq.m. on the parcel of land. Details of the properties are set out in no. 9 in the section headed "Group II – Property interest held by the Group under development in the PRC" in Appendix III to the prospectus.

   According to the legal opinion from the PRC legal advisers of the Company, the aforesaid land is classified as agricultural land instead of construction land and cannot be granted, transferred or sublet for non-agricultural purposes and hence, (1) the Tenancy Agreement is considered to be invalid under the relevant PRC laws or regulations and is subject to the risk of being terminated by the relevant PRC authority; and (2) the Storehouse erected on the parcel of land is subject to the risk of demolition as well as penalty imposed by the relevant PRC governmental authority to the extent of not more than RMB30 per sq.m.. As such, the Directors expect that the maximum penalty to be imposed by the relevant PRC government authority would be not more than RMB120,600.

The total construction cost of the Storehouse is estimated to be approximately RMB6,150,000 of which approximately RMB5,780,759 had been incurred up to 31 October 2005. Given the fact that the Storehouse is subject to the risk of demolition, the construction cost incurred up to 30 June 2005 has been charged to the profit and loss account as expenses for prudence sake and the Group will charge all relevant future construction costs to the profit and loss account.

2. The Group has also entered into six tenancy agreements ("Six Tenancy Agreements") pursuant to which the Group agreed to lease from the landlords (i) two commercial units with a total gross floor area of approximately 160 sq.m. located at No. 226 Sanqiao Road, Sanqiao Town, Xi'an, Shaanxi Province, the PRC for a term of four years commencing from 1 January 2004 at an annual rental of RMB65,000 for commercial purposes, exclusive of water, electricity and management charges; (ii) seven office units with a total gross floor area of approximately 100 sq.m. located at No. 66 Wanshou Bei Road, Xi'an, Shaanxi Province, the PRC for a term of two years commencing from 30 April 2004 at an annual rental of RMB15,000, exclusive of water, electricity and management charges; (iii) three commercial units with a total gross floor area of approximately 98 sq.m. located at No.66 Wanshou Bei Road, Xi'an, Shaanxi Province, the PRC for a term of three years commencing from 1 May 2003 at an annual rental of RMB94,080, exclusive of water, electricity and management charges; (iv) a storage unit with a gross floor area of approximately 600 sq.m. located at Jiushi Road, Xi'an, Shaanxi Province, the PRC for a term of three years commencing from 1 September 2003 at an annual rental of RMB93,600 for storage purposes, exclusive of water, electricity and management charges; (v) six commercial units with a total gross floor area of approximately 120 sq.m. located at the middle section of Hancheng Road, Lianhu District, Xi'an, Shaanxi Province, the PRC for a term of one year commencing from 1 April 2005 at an annual rental of RMB79,200 for business purposes; and (vi) an office unit with a gross floor area of approximately 208 sq.m. located at South Section Gaoxin Road, Xi'an, Shaanxi Province, the PRC for a term of one year commencing from 1 May 2005 at a monthly rental of RMB4,000 for office purposes, exclusive of water, electricity and management charges. Details of the properties are set out in nos. 11 to 15 in the section headed "Group IV – Property interests rented and occupied by the Group in the PRC" in Appendix III to this prospectus.

   According to the legal opinion from the PRC legal adviser to the Company, the PRC legal adviser is unable to ascertain whether the parties designated as landlords under the Six Tenancy Agreements have the legal right to execute the Six Tenancy Agreements in question, whether such landlords have the right to let or sub-let the properties in question, or whether they can assume duties and responsibilities as landlords under the Six Tenancy Agreements. For these reasons, the PRC legal adviser to the Company cannot ascertain whether the Six Tenancy Agreements are valid and enforceable or whether the Group is protected by PRC law when using such properties. In the absence of building ownership certificates showing proper legal titles, the Six Tenancy Agreements may not be valid or enforceable.

The Directors consider that the Storehouse leased under the Tenancy Agreement and the storehouse, commercial units and office units leased under the Six Tenancy Agreements are not crucial to the Group's business as the Group can lease similar premises from other landlords within a short period of time at similar prices.

However, potential investors should note that the lease of land use right pursuant to the Tenancy Agreement is subject to termination and the storehouse erected on the parcel of leased land are subject to the risk of demolition as well as penalty imposed by the relevant PRC authority, and the Six Tenancy Agreements may not be valid or enforceable. As such, the Group's business operation may be affected.

Reliance on suppliers

For the Track Record Period, purchases from the Group's largest supplier amounted to approximately RMB36.8 million, RMB31.1 million, and RMB42.1 million and RMB20.7 million respectively, representing approximately 12.9%, 10.3%, 13.6% and 12.5% respectively of the Group's total purchases. For the same period, purchases from the Group's top five suppliers amounted to approximately RMB100.1 million, RMB97.1 million, RMB96.1 million and RMB59.7 million respectively, representing approximately 35.0%, 32.2%, 31.0% and 35.9% respectively of the Group's total purchases. There is no guarantee that the Group will be able to continue to source sufficient supply of raw materials in the future. In the event that the Group encounters any material shortage in the supply of raw materials or the Group has to pay higher prices in order to source sufficient raw materials to sustain the Group's operation, the Group's profitability may be adversely affected.

Supply and price fluctuations of raw materials

The production process of the Group involves the use of various kinds of raw materials. Demand and supply primarily determine the prices of these raw materials and, in turn, affect the Group's production costs. During the Track Record Period, the cost of direct materials for the Group's manufactured pharmaceutical products amounted to approximately RMB264.6 million, RMB289.8 million, RMB309.1 million and RMB156.5 million respectively, representing approximately 67.2%, 69.4%, 68.8% and 71.6% of the Group's total cost of goods sold respectively. The prices of raw materials and chemicals used by the Group did not materially fluctuate during the Track Record Period. However, in the event that the prices of the raw materials and chemicals used by the Group significantly increase and such increase cannot be passed to the selling prices of its products correspondingly, the Group's business and profitability would be adversely affected.

Uncertainty regarding admission of existing products or new products of the Group to the Insurance Catalogue

Pursuant to the "Notice on the issue of the State Basic Medical Insurance Catalogue" (關於印發國家基本醫療保險藥品目錄的通知), the Ministry of Labour and Social Security in the PRC established an Insurance Catalogue. The admission of medicines to the Insurance Catalogue are determined by the PRC government authorities based on factors including treatment requirements, frequency of usage, effectiveness, reliability and price of the products and is subject to changes by the Ministry of Labour and Social Security of the PRC from time to time. The Insurance Catalogue is also subject to adjustment implemented by provincial authorities from time to time who may remove medicines from or add medicines into the Insurance Catalogue. Consumers purchasing medicines included in the Insurance Catalogue are entitled to reimbursement of a proportion of the costs of such medicines from the social medical fund maintained by relevant PRC government authorities in accordance with relevant regulations of the PRC. As at the Latest Practicable Date, 85 and 55 regularly produced pharmaceutical products and Chinese medicines respectively of the Group's medicines were included in the Insurance Catalogue or in the Insurance Catalogue as adjusted and implemented by provincial authorities in certain provinces in the PRC. The Directors consider that the demand and the sale of medicines listed in the Insurance Catalogue are comparatively higher than other medicines not listed in the Insurance Catalogue as they are entitled to reimbursement.

For the Track Record Period, sales of the Group's pharmaceutical products and Chinese medicines that were included in Insurance Catalogue amounted to approximately RMB720.5 million, RMB766.0 million, RMB752.3 million and RMB331.6 million respectively.

There is no assurance that the Group's existing products will continue to be included in the Insurance Catalogue or included in the Insurance catalogue as adjusted and implemented at provincial level. The removal or exclusion of the Group's products from the Insurance Catalogue or from the Insurance Catalogue as adjusted and implemented by provincial authorities from time to time may adversely affect the sale of the Group's products. In addition, any failure to obtain admission of products developed by the Group in the future to the Insurance Catalogue or to the Insurance Catalogue as adjusted and implemented by provincial authorities may adversely affect the future sales of those products.

Reliance on Rejoy Group, the Controlling Shareholders and their respective associates

The Group has entered into a number of continuing connected transactions with Rejoy Group, the Controlling Shareholders and their respective associates, respectively. Details of the transactions are set out in the paragraphs headed "Related party transactions and connected transactions" and "Relationship with Rejoy Group, the Controlling Shareholders and their respective associates", in the section headed "Business" in this prospectus. In the event that Rejoy Group, the Controlling Shareholders or their respective associates discontinue any of these transactions with the Group, the Group's sales may decrease or its expenses may increase which in turn may affect the Group's profitability.

Reliance on research institutions and universities for the research and development of new products

The Directors believe that one of the key strengths contributing to the Group's success is its research and development capability. The Group cooperates with universities and research institutions, including Peking University (北京大學), General Hospital of PLA (解放軍總醫院), China-Japan Friendship Hospital (中日友好醫院), Xi'an Jiaotong University (西安交通大學), East China University of Science & Technology (華東理工大學), Sichuan University (四川大學) and Beijing Pureen Technology Co., Ltd. (北京真綠天遠科技有限公司) to carry out certain research and development works. When the Group considers certain research and development results developed by universities or research institutions are commercial viable for the production of new products, the Group normally enters into technology know-how transfer agreements with such universities or research institutions pursuant to which the Group acquires the technology know-how from them. At present, some of the research and development projects are undertaken by the Group in cooperation with research institutions, universities and hospitals in the PRC. In the event that such universities, research institutions or hospitals cease to co-operate with the Group for whatever reasons, the Group's operation may be adversely affected.

Research and development risk

As at the Latest Practicable Date, approximately 36 products were actively being developed by the Group, particulars of which are set forth under the sub-paragraph headed "Products under development" in the paragraph headed "Research and development" in the section headed "Business" in this prospectus. During the Track Record Period, the research and development costs incurred by the Group amounted to approximately RMB6.2 million, RMB7.5 million, RMB6.2 million and RMB2.7 million respectively.

The continuous development and launch of new products is important for the growth of the Group to a large extent. However, due to the highly uncertain nature of pharmaceutical products development, products under development may not reach the market for various reasons such as the finding of harmful side effects in pre-clinical and/or clinical testings and the failure to obtain the necessary registration. Clinical results may be subject to different interpretations leading to the delay of regulatory approvals. There is no assurance that the products under development may achieve the expected objectives and results within the anticipated time frame or budget or whether products successfully developed by the Group and approved by the relevant authorities will achieve market acceptance.

Credit risks

The Group continually supervises the creditability of the customers, and most of the customers have to settle their payments within 90 days. For the Track Record Period, provision for impairment of receivables made by the Group approximately amounted to RMB4,380,000, RMB6,464,000, RMB1,404,000 and RMB992,000 respectively, representing approximately 0.5%, 0.7%, 0.2% and 0.2% of the total sales of the Group respectively. Nevertheless, there is no assurance that payment by customers will not be delayed and/or there will not have any defaults by customers in the future. In such event, the Group's profitability may be adversely affected.

Sustainability of profitability

During the Track Record Period, net profit attributable to equity holders of the Company amounted to approximately RMB60,819,000, RMB70,333,000, RMB88,632,000 and RMB37,556,000 respectively. The Group achieved a gross profit margin of approximately 54.3%, 53.4%, 50.2% and 49.5% respectively for the same period. The corresponding net profit margin was 7.1%, 7.8%, 9.8% and 8.7% respectively. In spite of the profitability achieved, there is no assurance that the Group will be able to increase or maintain the historical profitability and net profit margin in the future. Therefore, the historical results of the Group should not be used as an indication of the Group's future performance.

Products substitution

If other manufacturers produce similar products or products with comparable medicinal applications or therapeutic effects which may be used as direct substitutes for the Group's products and such potential substitutes are sold in the PRC market with their selling prices comparable to or lower than those manufactured and sold by the Group, the Group's profitability may be adversely affected.

Reliance on the PRC market

The Group's products are mainly distributed and sold in the PRC. For the Track Record Period, sales of the Group's products in the PRC market amounted to approximately RMB833.4 million, RMB854.6 million, RMB875.9 million and RMB420.7 million, representing approximately 96.8%, 95.3%, 97.0% and 97.1% of the total sales of the Group respectively. The business and profitability of the Group have been therefore materially dependent on the demand in the PRC market. In the event that there are major changes in the political, legal, economic and/or social conditions in the PRC and such changes directly or indirectly affect the demand in the PRC, the Group's future sales and profitability may be adversely affected.

Reliance on quality medicinal raw materials for production of Chinese medicine products

The production of Chinese medicines relies on the supply of Chinese medicinal raw materials of suitable quality. The supply and market prices of these raw materials may be affected by factors such as weather conditions and natural disasters. There can be no assurance that the Group would be able to pass on any resulting increase in costs to its customers and therefore any substantial fluctuation in supply or market prices of raw materials may adversely affect the Group's results of operations and profitability.

Product liability

Product liability claims may arise if harmful products are sold to members of the public or if there is any allegation of harmful effects from the consumption of the Group's products. Under the applicable PRC laws, manufacturers and sellers of defective products in the PRC may incur liability for loss and injury caused by such products. Pursuant to the "General Principles of the Civil Law of the PRC" (中華人民共和國民法通則) (the "PRC Civil Law"), manufacturers or sellers of any defective products which cause property damage or physical injury to any person may be subject to civil liability with respect to such damage or injury.

The "Product Quality Law of the PRC" (中華人民共和國產品質量法) (the "PRC Product Quality Law") was enacted in 1993 and amended in 2000 for the protection of the legal rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. Pursuant to the PRC Product Quality Law, manufacturers producing defective products may be subject to revocation of business licenses and criminal liability.

The "Law of the PRC on the Protection of the Rights and Interests of Consumers" (中華人民共和國消費者權益保護法) was promulgated on 31 October 1993 and enacted from 1 January 1994 for further protection of the consumers' rights for the purchase or use of goods and services. This law is applicable to all business entities.

The Directors consider that pharmaceutical manufacturers in the PRC are not required to maintain product liability insurance for their pharmaceutical products. At present, the Group does not maintain any product liability insurance. Up to the Latest Practicable Date, the Group had not experienced any litigation or claims in relation to product liability. However, there is no assurance that the Group will not experience such claims in the future. If any product liability claims is brought against the Group successfully, the Group's reputation and financial position may be seriously affected.

Trademarks and counterfeit products

The Group's products except for bulk pharmaceuticals are normally sold under its own brand names, which were all registered as trademarks in the PRC, particulars of which are set forth under the paragraph headed "Intellectual property rights" in the section headed "Further information about the business" in Appendix V to this prospectus. There is no assurance that these trademarks would not be infringed and the Group's products would not be counterfeited. Counterfeit products would potentially damage the image and reputation of the Group's products and would adversely affect the Group's business.

Intellectual property right protection

The Group may need to use the technologies developed by third parties in connection with new product development. There are potential risks that such technology acquired or transferred from or developed in collaboration with its technological partners may be subject to certain disputes of intellectual property rights or infringement claims not known or disclosed to the Group. Hence, the Group's use of any third parties' intellectual property rights may also expose the Group to infringement claims if the transferor of the technology acquired by the Group does not have the legal right to transfer the necessary technology to the Group or its technological partners do not have the valid right to use or license such technology. In addition, the Group's competitors may independently develop technologies, formulae and processes that are similar or superior to those of the Group and these parties may seek patent or other intellectual property right registration in respect of their technologies, formulae and processes. It is also possible that the formulae, processes and technologies in respect of the Group's products, both developed and under development, may overlap with or be similar or identical to those of other parties which are covered by registered patents or other intellectual property rights registration. The Group may also be exposed to infringement claims as the number of products in the pharmaceutical industry grows and the functionality, formulae, processes and production methods of these products overlap. Any of these claims, regardless of its merits, would result in costly litigation. If a third party successfully claims that the Group's products infringes upon their intellectual property rights, the Group may be forced to discontinue developing and producing such products, pay damages or account for profits for infringement, or cease certain infringing activities. As a result, the Group may be restricted or prevented from manufacturing or selling its products.

Preferential tax treatments

According to "Notice on Issues of Tax Incentive Policy for the Western China Development" (關於西部大開發稅收優惠政策問題的通知) jointly issued by Ministry of Finance (財政部), State Administration of Taxation (國家稅務總局) and General Administration of Customs (海關總署), domestic enterprises and foreign-invested enterprises which operated in the western part of the PRC and qualified as encouraged enterprise are entitled to a preferential PRC enterprise income tax rate of 15% of the assessable income for the period from 2001 to 2010.

Xi'an Lijun, the principal subsidiary of the Company, was qualified and recognised by Economics and Trade Committee of Shaanxi Province (陝西省經濟貿易委員會) as the aforesaid encouraged enterprise in the PRC in 2002 and it is therefore entitled to the said preferential enterprise income tax treatment. As a result, Xi'an Lijun was subject to an enterprise income tax rate of 15% for the each of the three years ended 31 December 2004.

On 30 December 2004, Xi'an Lijun has obtained approval to be designated as a sino-foreign joint venture enterprise and therefore ceased to be entitled to the preferential enterprise income tax rate of 15%. In May 2005, the enterprise income tax rate of Xi'an Lijun has been approved to be 24%, effective from 1 January 2005. Pursuant to the "Reply on Enjoying Statutory Reduction and Exemption of Enterprise Income Tax" (享受企業所得税法定減免的覆函) issued by the Foreign-related Branch of Xi'an State Tax Bureau (西安市國家税務局涉外分局) on 13 May 2005, Xi'an Lijun is entitled to an exemption from the enterprise income tax for the first two years and a 50% reduction in the enterprise income tax for the subsequent three years for the years 2005 to 2009.

In the event that the above preferential treatment is withdrawn or changed or that any of the Group's subsidiaries in the PRC should cease to be eligible for entitlement for such preferential treatment, the Group's tax liability will increase and affect the profitability of the Group adversely.

Environmental protection regulations

The current production processes of the Group's products produce sewage, exhaust fumes and industrial wastes. The Group is required to comply with the relevant PRC laws and regulations of environmental protection. The Directors confirm that the production facilities of the Group currently conform to all prevailing environmental protection regulations and the Group did not receive any material claims during the Track Record Period. However, there is no guarantee that the PRC government will not change or tighten the existing laws and regulations or impose additional environmental protection measures in the future. In such event, the Group may need to incur additional costs to replace, upgrade or supplement its existing production facilities in order to comply with the more stringent environmental protection regulations and the Group's profitability may be affected.

Dividends

The dividends declared by the subsidiaries of the Group in respect of each of the three years ended 31 December 2004 and the six months ended 30 June 2005 amounted to approximately RMB52,725,000, RMB63,270,000, RMB89,774,000 and RMB4,218,000 respectively. Payments of such dividends were financed by internal resources of the Group. In addition, the Directors expect that in the future the declaration of payment and the amount of future dividends will be approximately 50% of the profit attributable to Shareholders for each financial year. There is no assurance that the Group may declare any dividends or pay any dividends at the same or expected level to its shareholders after the listing of Shares on the Stock Exchange and the abovementioned dividends or expected dividends should not be used as an indication of the Company's future dividend policy.

RISKS RELATING TO THE INDUSTRY

Regulations of SFDA and other government authorities

The Group needs to comply with strict industry regulations promulgated by the SFDA and other government authorities in the PRC. Approval of business licenses, pharmaceutical manufacturing permits, certificates and registration of medicines from the SFDA and other government authorities are required by the PRC law for the Group to manufacture pharmaceutical products in the PRC. Details of these certificates, permits and business licenses and registration of medicines are described in the section headed "Industry Overview" in this prospectus. The Group will be subject to re-assessment by the issuing authorities in accordance with the then prevailing legal and regulatory requirements for the purposes of the periodic renewal of those licenses, permits or certificates. However, the rules and regulations promulgated by the SFDA and other government authorities may change from time to time and potentially create a material impact on the Group. There is no assurance that such changes or amendments would not have any adverse impact on the business and profitability of the Group.

Compliance with the GMP

From 1980's, the PRC government has been encouraging pharmaceutical manufacturers to comply with the GMP. Pursuant to the notice issued by the SFDA in October 2001, all pharmaceutical manufacturers in the PRC will be required to comply with the GMP and obtain GMP certificates by 30 June 2004. The Pharmaceutical Manufacturing Permits of those manufacturers who fail to obtain GMP certification by the deadline will not be renewed. These manufacturers will also be prohibited from carrying on production business of pharmaceutical products in the PRC. The Group has been accredited with eight GMP certificates for its production lines for the production of the pharmaceutical products and bulk pharmaceuticals. If any of these GMP certificates are not renewed by the SFDA, it will lead to the cessation of production of certain products. In such event, the Group's business and profitability would be adversely affected.

Price Control

The prices of certain pharmaceutical products and Chinese medicines sold in the PRC are subject to price control stipulated by the relevant state and provincial price administration authorities in the PRC. Therefore, the Group cannot set the price of its products above the price ceilings at its discretion without obtaining approval from the relevant authorities. For the Track Record Period, sales of the Group's pharmaceutical products and Chinese medicines that were subject to price control amounted to approximately RMB720.5 million, RMB766.0 million, RMB752.3 million and RMB331.6 million respectively. If the relevant PRC authorities further reduce the ceiling prices of these products and the Group cannot reduce the cost of goods sold correspondingly, the profit margin and the profitability of the Group may be adversely affected. Details of such price control are set out in the section headed "Industry overview" in this prospectus.

Quality control by SFDA

The SFDA will regularly select samples and perform random quality testings on pharmaceutical products sold in the PRC market. If any of the Group's products fails to comply with its registered standard (such information will be announced by the SFDA) or has serious side effects, that not only leads to the possible revocation of production licenses, but also greatly damages the Group's reputation. In such event, the Group's business and profitability would be adversely affected.

Competition

The Group faces keen competition from both local and overseas manufacturers which produce similar products to that of the Group. The Directors believe that the bases of competition may include price, quality, capital, research and development capability, manufacturing and marketing capabilities and brand reputation in the industry. Any increase in competition could reduce the Group's sales, lower its selling prices, thus reduce its profit margin. In the event that the competition from the competitors intensifies and the Group is unable to maintain or strengthen its competitiveness, the Group's profitability would be adversely affected.

Rapid advancement of technology

The Directors view that pharmaceutical and health-care markets have been developing rapidly with the continuous introduction of advanced technologies and new products. The future advancement of product technologies and new products developed by the Group's competitors may turn the Group's existing products obsolete and thus lower their market share and competitiveness. As a result, the Group's future success lies largely in the products enhancement and the development of competitively-priced new products to cater for the rapidly changing market. If the Group fails to keep pace with technology advancements or fails to enhance or develop new products promptly, or if the Group's products are not accepted by the market, the Group's business and profitability would be adversely affected.

RISKS RELATING TO THE PRC

Political, economic and social considerations

The Directors are of the view that the general economic, political, legal and social conditions prevailing in the PRC may directly or indirectly affect the Group's financial condition and operations since the Group's production facilities are located in the PRC and the majority of the Group's products are sold in the PRC market.

Over the years, the PRC government has introduced substantial economic and political reforms. However, many laws and regulations governing economic matters implemented by the PRC government are at an early stage of development and their interpretation and enforcement involve more uncertainties than in most western countries.

There is no assurance that the Group's future performance and profitability will not be adversely affected by any changes in political, legal, economic and/or social conditions in the PRC and by any changes in the PRC government policies.

Evolving nature of the PRC legal system

Since 1979, many laws and regulations have been promulgated in the PRC with respect to foreign investments. In 1982, the PRC National People's Congress amended the constitution to authorise foreign investments and to guarantee the "legal rights and interests" of foreign investors in the PRC. Since then, the trend of legislation has been to enhance significantly the protection afforded to foreign investors and to allow more active control of foreign investors over their foreign investment enterprises in the PRC. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. As the PRC legal system matures, any changes in its legislation or the related interpretation may materially affect the business and prospects of the Group.

State control of currency conversion and future movements in exchange rates

Over 90% of the Group's sales are in the PRC and denominated in Renminbi. Renminbi is not freely convertible into other currencies, except under certain circumstances. Since 1996, a number of rules, regulations and notices regarding foreign exchange control have been issued by the PRC government which are designed to allow a degree of convertibility of Renminbi, under which foreign investment enterprises are permitted to convert Renminbi into foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks by complying with various procedural requirements. Control over conversion of Renminbi into foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities), however, is more stringent and such conversion is subject to a number of restrictions. The PRC government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we might not be able to pay dividends or satisfy other foreign exchange requirement.

The value of Renminbi against other foreign currencies is subject to changes in the PRC's policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the People's Bank of China, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of Renminbi into Hong Kong dollars and U.S. dollars generally have been stable. As of 21 July 2005, the Renminbi will no longer be pegged to the U.S. dollars but to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the U.S. dollar and the Hong Kong dollar by approximately 2%. Should there be significant changes in the exchange rates of U.S. dollars against Hong Kong dollars or Renminbi, financial condition and results of operations of the Group may be adversely affected.

The PRC entry to the WTO

The PRC government has to gradually open its market for various products by reducing certain import tariffs after the PRC has become a member of the WTO. This process may result in lowering the import tariff for pharmaceutical products and increasing the market competition that the Group has to encounter. In the event that the Group is unable to maintain its competitive advantages over those foreign competitors, the Group's business may be adversely affected.

RISKS RELATING TO THE SHARE OFFER

No prior public market for the Shares

An active trading market for the Shares may not develop and the trading price for Shares may fluctuate significantly. Prior to the Share Offer, there has been no public market for any of the Shares. The Offer Price may not be indicative of the price at which Shares will trade following completion of the Share Offer and the Capitalisation Issue. In addition, there is no assurance that an active trading market for Shares will develop, or, if it does develop, that it will be sustained following completion of the Share Offer and the Capitalisation Issue, or that the market price of the Shares will not decline below the Offer Price. The trading price and trading volume of the Shares will also be subject to significant volatility in response to such variations like investor perceptions of the Group and the Group's business plans in the PRC; variations in the Group's operating results; announcements of new products; technological innovations; changes in pricing made by the Group, the Group's competitors or other pharmaceutical and health-care product producers; changes in senior management personnel; and general economic and other factors.

Dilution of shareholder's interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance expansion of or new developments for its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Group other than on a pro rata basis to existing shareholders, the percentage ownership of the shareholders of the Group may be reduced, shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to the Shares.

No undue reliance upon industry statistics

Statistics and other information relating to the industry under the sections headed "Summary", "Risk factors", "Industry overview" and "Business" in this prospectus have been compiled from the information and statistics derived from government officials publications. The Directors have taken reasonable steps to ensure that the statistics and other information have been derived on such sources, which have not been verified independently by the Group. As such, neither the Group, the Sponsor, the Underwriters or other parties involved in the Share Offer are able to guarantee the quality of these information. Besides, the statistics derived from multiple sources may not be prepared on a comparable basis. No representation is made by the Group, the Sponsor, the Underwriters or other parties involved in the Share Offer as to the accuracy of any such information, which may not be consistent with other information collected within or outside the PRC. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon.

Forward-looking statements involve uncertainty and risk

We have included in this prospectus forward-looking statements that state our intentions, beliefs, expectations or predictions for the future, in particular under the sections headed "Business" and "Future plans" in this prospectus. The forward-looking statements include, without limitation, statements relating to future developments in the relevant industry as well as the industry outlook generally, future development of our business, our business strategies and plans of operation and our dividend policy.

In some cases, we use words such as "believe", "intend", "anticipate", "estimate", "forecast", "plan", "potential", "will", "may", "should" and "expect" and similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our strategies, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we are not able to give any assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed under the section headed "Risk factors" and elsewhere in this prospectus, including in conjunction with the forward-looking statements included in this prospectus.

Gap between the Price Determination Date and the Listing Date

The time period between the Price Determination Date and the Listing Date is expected to be nine business days, being slightly longer than normal market practice which is four to five business days. The application monies including the brokerage, Stock Exchange trading fee and SFC transaction levy will be held by the Company and the refund monies, if any, will be returned to the investors without interest on or before 16 December 2005. Investors may not be able to sell or otherwise deal in the Shares during that period, which is before the Listing Date.

This prospectus is issued by the Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any other jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any jurisdiction. Prospective applicants should inform themselves as to the relevant legal requirements of applying for Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Exchange Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

The Offer Shares are offered for subscription and sale solely on the basis of the information contained and the representations made in this prospectus and the related application forms. No person is authorised in connection with the Share Offer to give any information, or to make any representation not contained in this prospectus and the related application forms. Any information or representation not contained herein and the related application forms must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

FULLY UNDERWRITTEN

The Share Offer comprises (a) an offer for subscription of 7,000,000 new Shares pursuant to the Public Offer at the Offer Price payable in full on application, and (b) an offer for subscription by the Company of 63,000,000 new Shares to professional, institutional and individual investors pursuant to the Placing at the Offer Price, payable in full on application; in each case subject to re-allocation as described under the section headed "Structure of the Share Offer" in this prospectus. This prospectus and the related application forms set out the terms and conditions of the Public Offer.

The Share Offer is sponsored by the Sponsor and lead managed by the Lead Manager. Subject to the terms of the Placing and Underwriting Agreement, the Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are fully underwritten by the Placing Underwriters. For particulars of the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Company and the Lead Manager (on behalf of the Underwriters) on or before on 7 December 2005 (Hong Kong time), or such later time as may be agreed between the Lead Manager (on behalf of the Underwriters) and the Company but in any event no later than 5:00 p.m. on 9 December 2005.

If the Lead Manager (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by 5:00 p.m. on 9 December 2005, the Share Offer will not become unconditional and will lapse.

RESTRICTIONS ON THE USE OF THIS PROSPECTUS

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Sponsor has on behalf of the Company applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer (including any Shares to be issued pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

No part of the Company's share or loan capital is listed on or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek the listing of or permission to deal in any of its share or loan capital on any other stock exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing, holding or disposing of or dealing in the Offer Shares, you should consult an expert such as stockbroker, solicitor, professional accountant or other professional advisers.

The Company, the Sponsor, the Underwriters, their respective directors and any other person involved in the Share Offer do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for, or purchasing, holding or disposing of or dealing in the Offer Shares or any rights thereof.

REGISTERS OF MEMBERS

All of the Shares pursuant to the Share Offer will be registered on the Company's branch register of members to be maintained in Hong Kong by its branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Company's principal register of members will be maintained by its principal share registrar and transfer office, Butterfield Fund Services (Cayman) Limited at P.O. Box 705 Butterfield House, 68 Fort Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

STAMP DUTY

Dealings in the Shares registered on the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedures for application for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and in the relevant application forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in the section headed "Structure of the Share Offer " in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on 20 December 2005. Shares will be traded in board lots of 2,000 Shares each.

Name	Address	Nationality
Executive Directors		
Mr. Wu Qin (吳秦)	No. 37, Dong Bangzi City Street Lianhu District Xi'an City Shaanxi Province the PRC	Chinese
Mr. Wu Zhihong (烏志鴻)	No. 61, Block 24 Pharmaceutical Company Family Members Western District Lianhu District Xi'an City Shaanxi Province the PRC	Chinese
Mr. Huang Chao (黃朝)	No. 5, Block 3 Western Welfare District Central Xi'an Pharmaceutical Company Lianhu District Xi'an City Shaanxi Province the PRC	Chinese
Mr. Xie Yunfeng (謝雲峰)	No. 283 Xiguanzheng Street Lianhu District Xi'an City Shaanxi Province the PRC	Chinese
Ms. Sun Xinglai (孫幸來)	Flat D, 12th Floor Winway Court 3 Tai Hang Road Causeway Bay Hong Kong	Chinese
Non-executive Director		
Mr. Liu Zhiyong (劉志勇)	4C, Hsiakung Mansion Taikoo Shing Hong Kong	Chinese

Independent Non-executive Directors

Mr. Qu Jiguang (曲繼廣)	Danshen Hostel No. 60 Zhongshan Middle Road Qiaoxi District Shijiazhuang City the PRC	Chinese
Mr. Leung Chong Shun (梁創順)	Flat 2008, Block 41 Heng Fa Chuen Chai Wan Hong Kong	Chinese
Mr. Chow Kwok Wai (周國偉)	Flat A, 16th Floor Phase 2 Blessings Garden 56 Conduit Road Hong Kong	Chinese

Registered office	Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	Office 1606, 16th Floor Office Tower Convention Plaza 1 Harbour Road Hong Kong
Company secretary	Mr. Lam Yiu Por *CPA, ACCA*
Qualified Accountant	Mr. Lam Yiu Por *CPA, ACCA*
Authorised representatives	Mr. Wu Zhihong No. 61, Block 24 Pharmaceutical Company Family Members Western District Lianhu District Xi'an City Shaanxi Province the PRC Ms. Sun Xinglai Flat D, 12th Floor Winway Court 3 Tai Hang Road Causeway Bay Hong Kong
Compliance adviser	Guotai Junan Capital Limited
Members of the audit committee	Mr. Chow Kwok Wai *(Chairman)* Mr. Qu Jiguang Mr. Leung Chong Shun
Members of the remuneration committee	Mr. Leung Chong Shun *(Chairman)* Mr. Qu Jiguang Mr. Chow Kwok Wai

Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited P.O. Box 705 Butterfield House 68 Fort Street George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-16, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Industrial and Commercial Bank of China Tumen Branch No. 229 Feng Gao Road East Xi'an The PRC China Construction Bank Xi'an Hi-Tech Development Zone Subbranch No. 42 Gao Xin Road Hi-Tech Development Zone Xi'an The PRC China Merchants Bank Xi'an Branch No. 178 Han Guang Road Xi'an The PRC China Minsheng Banking Corp., Ltd. Xi'an Branch No. 78 West Section of Second-ring Road Xi'an The PRC CITIC Industrial Bank Gaoxin Exploitation Area Sub Branch No. 34 Ke Ji Road Xi'an The PRC

Sponsor	VXL Financial Services Limited Unit 3214, 32nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong
Global coordinator, sole bookrunner and Lead Manager	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Placing Underwriters	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	China Merchants Securities (HK) Company Limited 48th Floor, One Exchange Square Central, Hong Kong
	Core Pacific – Yamaichi International (H.K.) Limited 36th Floor, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
	South China Securities Limited 28th Floor, Bank of China Tower 1 Garden Road, Central Hong Kong
	Tokai Tokyo Securities (Asia) Limited 1704, One Exchange Square 8 Connaught Place Central, Hong Kong
	Worldwide Finance (Securities) Limited 16th Floor, Guangdong Investment Tower 148 Connaught Road Central Hong Kong

Public Offer Underwriters	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	China Merchants Securities (HK) Company Limited 48th Floor, One Exchange Square Central, Hong Kong
	Core Pacific – Yamaichi International (H.K.) Limited 36th Floor, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
	South China Securities Limited 28th Floor, Bank of China Tower 1 Garden Road, Central Hong Kong
	Tokai Tokyo Securities (Asia) Limited 1704, One Exchange Square 8 Connaught Place Central, Hong Kong
	Worldwide Finance (Securities) Limited 16th Floor, Guangdong Investment Tower 148 Connaught Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong Law* Mallesons Stephen Jaques 37th Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
	As to PRC Law Haiwen & Partners Room 1711, Beijing Silver Tower No. 2, Dong San Huan North Road Chaoyang District, Beijing The PRC

	As to Cayman Islands Law Conyers Dill & Pearman Century Yard, Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
Legal advisers to the Sponsor and the Underwriters	Paul, Hastings, Janofsky & Walker 22nd Floor, Bank of China Tower 1 Garden Road Hong Kong
Reporting accountants	PricewaterhouseCoopers 22nd Floor, Prince's Building Central, Hong Kong
Property valuer	Sallmanns (Far East) Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Receiving banker	Standard Chartered Bank (Hong Kong) Limited 15th Floor Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Kowloon Hong Kong

PHARMACEUTICAL INDUSTRY IN THE PRC

Introduction

The pharmaceutical industry in the PRC has experienced significant growth in the past few years. According to the information in the China Statistical Yearbook 1999 and 2004, the aggregate gross industrial output value of the State-owned and non State-owned above designed size industrial enterprises in the manufacture of medical and pharmaceutical products sector in the PRC increased from approximately RMB137 billion in 1998 to approximately RMB289 billion in 2003, representing a CAGR of approximately 16.1%, while their sales revenue increased from approximately RMB126 billion in 1998 to approximately RMB275 billion in 2003 representing an annual compound growth rate of approximately 16.9%.

The pharmaceutical products in the PRC are expected to be affected by the following factors:

Improving standard of living in the PRC

According to the China Statistical Yearbook 2004, the annual disposable income per capita of PRC city residents increased from RMB5,160 in 1997 to RMB8,472 in 2003 while the annual disposable income per capita of PRC rural residents increased from RMB2,090 in 1997 to RMB2,622 in 2000. It is therefore expected that the demand for pharmaceutical products and health care products will increase. Annual expenditure for public health per capita increased from RMB186.4 in 1997 to RMB442.5 in 2002. With increasing disposable income, people in the PRC become more health conscious.

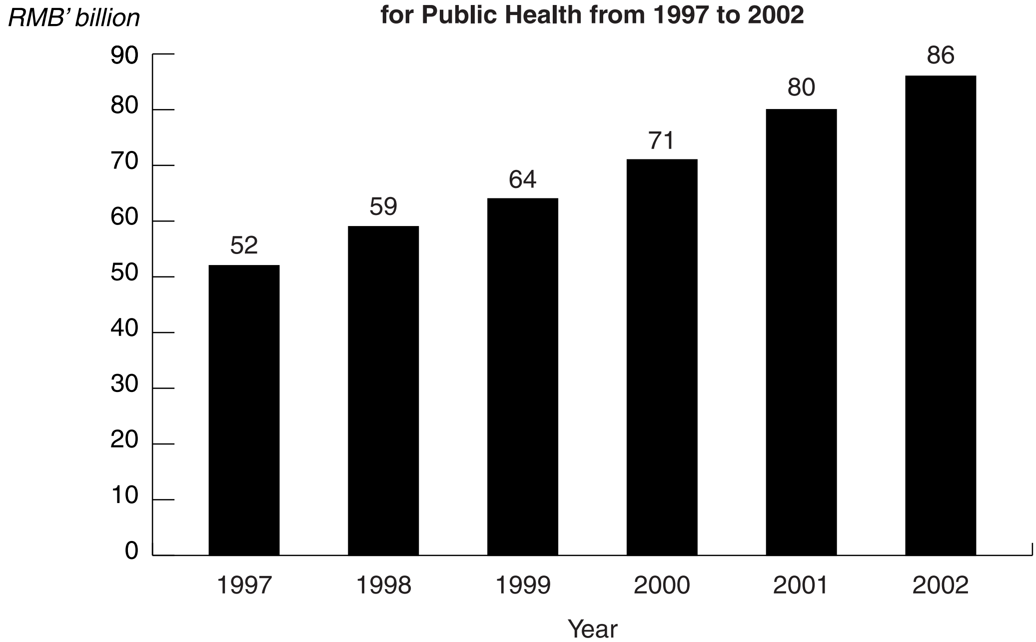
Aging population of the PRC

According to the China Statistical Yearbook 2004, the proportion of population aged 65 or above in the PRC has been on the increase, with nationals aged 65 or above making up approximately 4.91%, 5.57% and 6.96% of the total population in 1982, 1990 and 2000 respectively. Assuming that the prevailing birth control policies in the PRC will continue, the senior population, as a proportion of total population, is expected to grow. Besides, the life expectancy of the PRC residents has been rising. According to the China Statistical Yearbook 2004, the national life expectancy had risen from approximately 68.6 years in 1990 to approximately 71.4 years in 2000. The Directors believe that aging population in the PRC will increase the demand for medicines for treatment of illnesses commonly found among the elderly.

Increasing government spending on public health

In recent years, the PRC government has been spending more resources on public health including consumption of pharmaceutical products for public health. According to the China Statistical Yearbook 2004, the PRC government budgetary expenditure for public health had increased considerably in the past few years with the budgeted amount increasing from approximately RMB52 billion in 1997 to approximately RMB86 billion in 2002, representing a CAGR of 10.6%. The following chart illustrates the PRC government budgetary expenditure for public health from 1997 to 2002:

PRC Government Budgetary Expenditure for Public Health from 1997 to 2002



Source: China Statistical Yearbook 2004

Accession of the PRC to WTO

Following the accession of the PRC to WTO, the PRC has committed itself to carry out the following measures for the pharmaceutical industry:

(1) to protect intellectual right of pharmaceutical products;

(2) to lower tariff of imported pharmaceutical products;

(3) to cancel the administrative restriction of imported large-scale medical equipments from 2003;

(4) to open the distribution business of pharmaceutical products to foreign investors from 1 January 2003 (i.e. allowing foreign enterprises to carry out merchandising, storage, transportation, distribution, wholesaling, retailing and after-sale service in the PRC); and

(5) to open medical treatment services and allow foreign enterprises to establish joint venture or cooperative hospitals.

ANTIBIOTICS

Antibiotics are generally prescribed drugs for the prevention and treatment of bacterial infections. They inhibit the growth or kill bacteria and help human body to recover from bacterial infection. Based on their chemical composition, the major groups of antibiotics in the world are penicillins, cephalosporins, macrolides, tetracyclines, aminoglycosides, sulfonamides, quniolones. Most of the Groups' products are macrolides.

Macrolides are a chemical class of antibiotics whose activity stems from the presence of a *macrolide ring*, a large lactone ring to which one or more deoxy sugars, usually cladinose and desosamine, are attached. Each type of macrolides is different in terms of their molecular structure. The macrolides are used to treat infections such as respiratory tract infections and soft tissue infections. The antimicrobial spectrum of macrolides is slightly wider than that of penicillin. The mechanism of action of the macrolides is inhibition of bacterial protein synthesis.

The major derivatives of macrolides are erythromycin, erythromycin ethylsuccinate, clarithromycin, azithromycin and roxithromycin.

Erythromycin is an original member of macrolide antibiotics produced from a strain of Saccaropolyspora erythraea, formerly known as *Streptomyces erythraeus*, which has an antimicrobial spectrum similar to or slightly wider than that of penicillin, and is principally used for patients who are allergic to penicillins. It is effective in treating soft tissue and respiratory tract infection, pneumonia, Legionella and urethritis.

Erythromycin ethylsuccinate is the 2-ethylsuccinyl ester of erythromycin. It is essentially tasteless form of the antibiotic suitable for oral administration, particularly in suspension dosage forms.

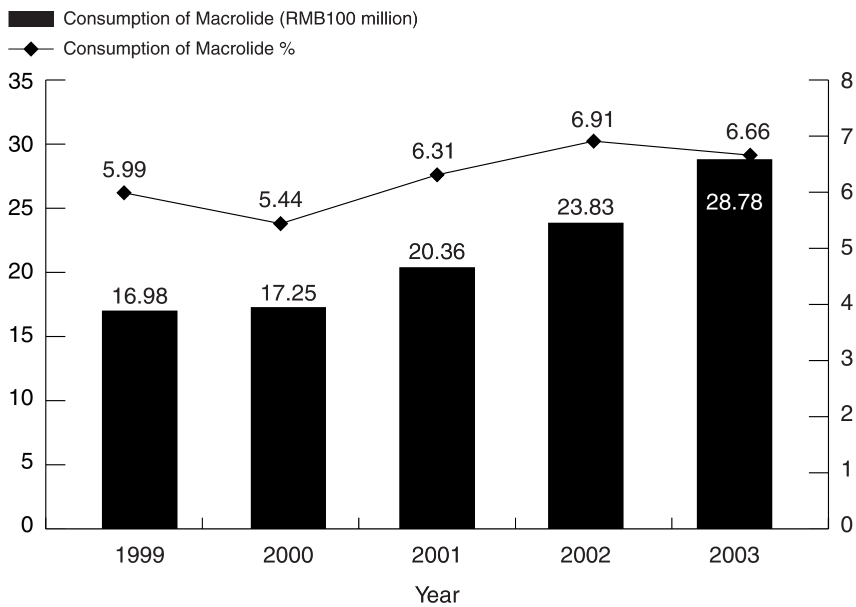
Clarithromycin is also a derivative of erythromycin and can be used to treat skin, soft tissue and respiratory tract infections.

By adding a nitrogen atom into the lactone ring of erythromycin, azithromycin is produced and can be used to treat respiratory tract, soft-tissue and genitourinary infections.

ANTIBIOTICS INDUSTRY IN THE PRC

According to research report by Orient Health e-Commerce (Beijing) Ltd (東方健康電子商務(北京)有限公司) ("Orient"), macrolide has secured a stable role in anti-bacterial infection medicines. Consumption of Macrolide accounted for 6.66% of the annual consumption of anti-bacterial infection medicine in 2003 rising from 5.99% in 1999 based on the estimation by the Medical and Pharmaceutical Technology Development Centre of the PRC ("MPTDC") as illustrated in the table below. In addition, the estimated annual consumption of macrolide in the PRC increased from approximately RMB1,698 million in 1999 to approximately RMB2,878 million in 2003.

The Growth Trend of the Comsumption of Macrolide from 1999-2003



Source: *The estimation by MPTDC based on the Database of the Consumption of Medicines of Sample Hospitals in 16 Cities (MPTDC)*

Note: *The number of hospitals and cities included in the "Commercial Information on the Consumption of Medicines of Hospitals in the PRC" developed by MPTDC has increased from 214 hospitals in 14 cities for 2002 to 252 hospitals in 16 cities in 2003. In order to standardised the number of samples, the statistics in the reports have been based on hospitals in 14 cities throughout the years, and since 2003 data analysis has included samples in 16 cities.*

Currently, the major macrolide products in the PRC include azithromycin, roxithromycin, clarithromycin, erythromycin ethylsuccinate and erythromycin.

The following table shows the annual consumption amount of major macrolide products in sample hospitals in 16 cities in the PRC and the respective proportion to the total consumption amount of macrolide products in these hospitals in 2003:

	Annual consumption in sample hospitals	**Proportion to annual macrolide consumption in sample hospitals**
	RMB'million	*(%)*
Azithromycin	183.4	63.7%
Roxithromycin	40.7	14.2%
Clarithromycin	38.2	13.3%
Erythromycin ethylsuccinate	8.6	3.0%
Erythromycin	7.9	2.8%

Source: The Database of the Consumption of Medicines of Sample Hospitals in 16 Cities (MPTDC)

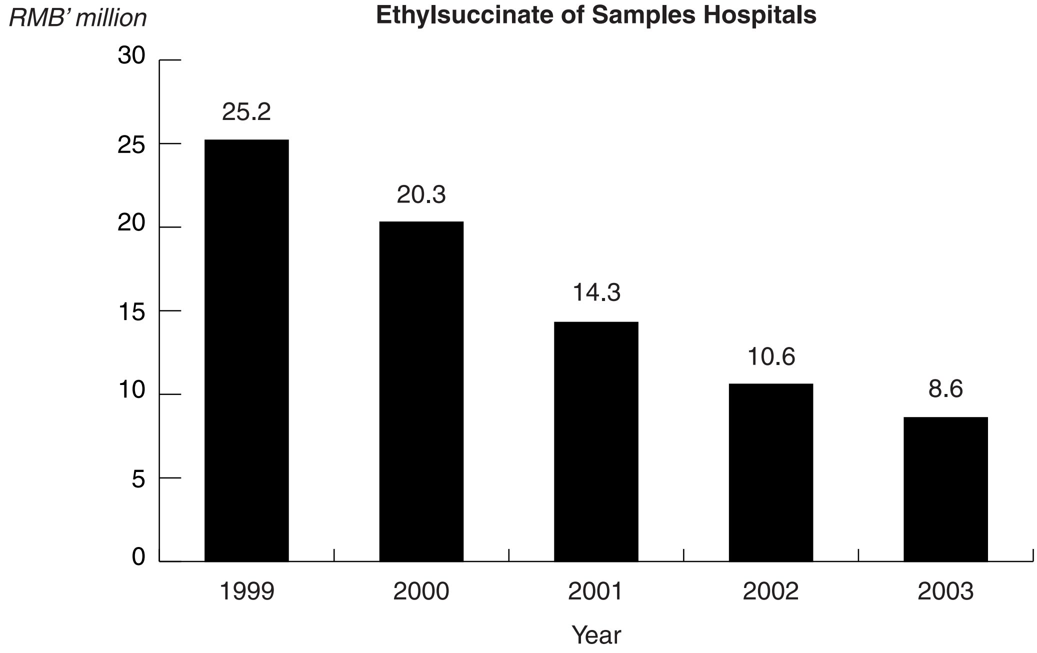
The following analysis is focus on the three types of macrolide antibiotics including erythromycin ethylsuccinate (as Lijunsha), clarithromycin (as Limiaxian) and azithromycin (as Paiqi) which are produced by the Group.

Erythromycin ethylsuccinate

As erythromycin ethylsuccinate is tasteless and can release erythromycin during human absorption, it is widely used in different forms for adults and children. The common forms of this antibiotics are tablet and granule.

As mentioned in the aforesaid report by Orient, as affected by azithromycin and clarithromycin in the macrolide markets in the PRC, the consumption amount of erythromycin ethylsuccinate had been decreasing during the five years from 1999 to 2003. From these five years, the annual consumption of erythromycin ethylsuccinate in sample hospitals in 16 cities in the PRC decreased from RMB25.2 million to RMB8.6 million. The following chart illustrates the annual consumption of erythromycin ethylsuccinate in these sample hospitals for the five years from 1999 to 2003.

Annual Consumpton of Erythromycin Ethylsuccinate of Samples Hospitals

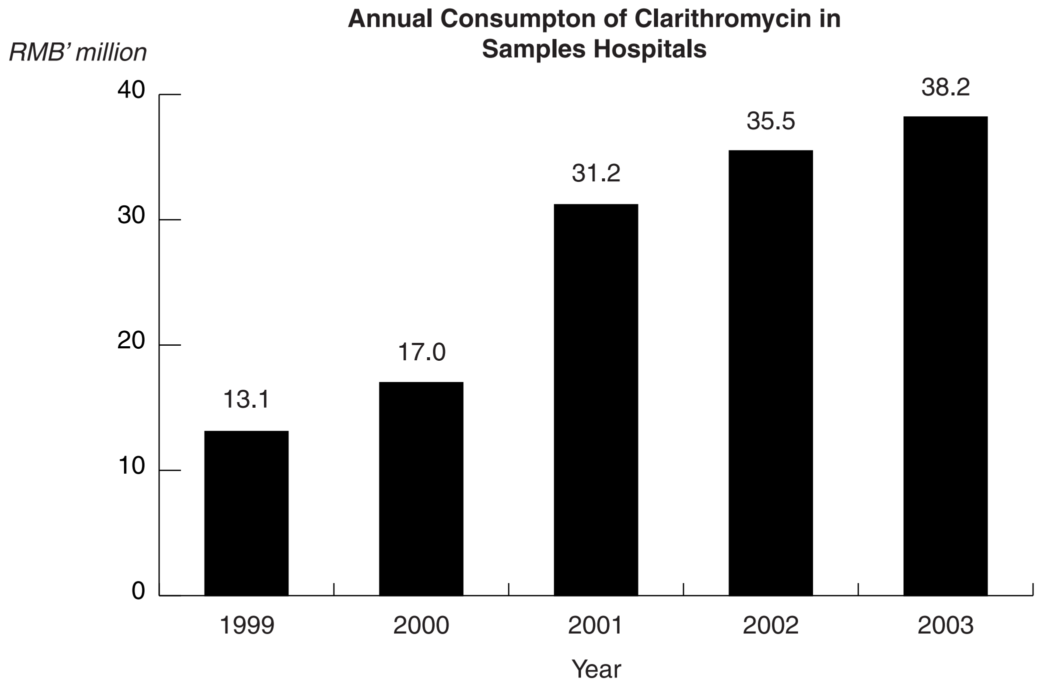


Source: The Database of the Consumption of Medicines of Sample Hospitals in 16 Cities (MPTDC)

Orient expects that due to the emergence of new derivatives of macrolides, the market share of erythromycin ethylsuccinate will decrease continuously. However, with the development in new rural markets, there may be new opportunities for growth in consumption of erythromycin ethylsuccinate.

Clarithromycin

The consumption amount of clarithromycin had been increasing during the five years from 1999 to 2003. During these five years, the annual consumption of clarithromycin in sample hospitals in 16 cities in the PRC increased from RMB13.1 million to RMB38.2 million. The following chart illustrates the annual consumption of clarithromycin in the sample hospitals for the five years from 1999 to 2003.

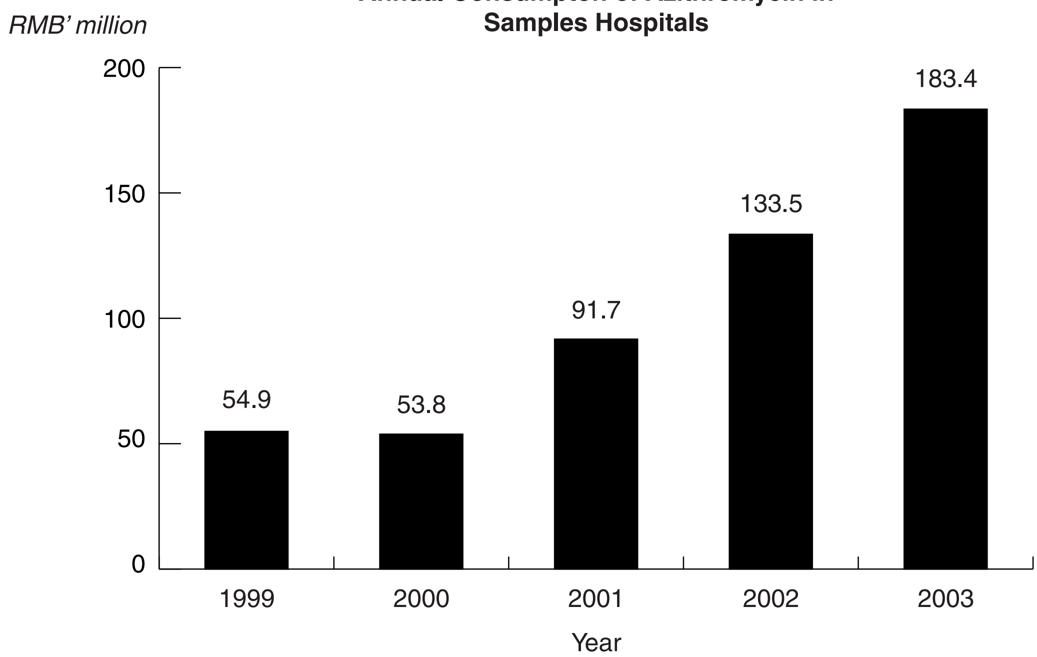


Source: The Database of the Consumption of Medicines of Sample Hospitals in 16 Cities (MPTDC)

Azithromycin

Azithromycin has similar anti-bacterial spectrum as erythromycin whereas it has stronger penetration power in body tissues and its popularity has been increasing in the PRC. As mentioned in the aforesaid report of Orient, azithromycin enjoys the largest consumption amount of macrolide antibiotics in the PRC. The consumption amount of azithromycin increased during the five years from 1999 to 2003. During these five years, the annual consumption of azithromycin in sample hospitals in 16 cities in the PRC increased from RMB54.9 million to RMB183.4 million. The following chart illustrates the annual consumption of azithromycin in these sample hospitals for the five years from 1999 to 2003.

Annual Consumpton of Azithromycin in Samples Hospitals



Source: The Database of the Consumption of Medicines of Sample Hospitals in 16 Cities (MPTDC)

Oral solution of azithromycin was included in the Insurance Catalogue in 2000 and injection form of azithromycin was included into the Insurance Catalogue in September 2004. Therefore, Orient expects that the consumption of azithromycin in the PRC is expected to grow in the foreseeable future.

GOVERNMENT POLICY FOR THE PHARMACEUTICAL INDUSTRY

Regulatory framework governing the PRC pharmaceutical industry

The "Law of the PRC on the Administration of Pharmaceuticals" (中華人民共和國藥品管理法) was promulgated on 20 September 1984 by the Standing Committee of the National People's Congress of the PRC. It was later revised on 28 February 2001 and the amendments came into effect on 1 December 2001. These form the legal basis for the administration of the production and sale of pharmaceutical products in the PRC and cover areas including the manufacture, trading, medical prescription, packaging, research, pricing and advertising of pharmaceutical products in the PRC. The "Implementation Regulations of the Law of the PRC on the Administration of Pharmaceuticals" (中華人民共和國藥品管理法實施條例) were promulgated by the State Council of the PRC on 4 August 2002, and came into effect on 15 September 2002 to set out the detailed implementation rules of the administration of pharmaceuticals in the PRC.

Major supervisory bodies

SFDA

The State Drug Administration ("SDA") was established in 1998 to assume the supervisory and administrative functions previously carried out by the Ministry of Health (衛生部), the State Administration Bureau for Pharmaceuticals (國家醫藥管理局) and the State Administration Bureau for Traditional Chinese Medicine (國家中醫藥管理局). Pursuant to the "Notice of the State Council Regarding the Government Organisations" (國務院關於機構設置的通知), the SFDA was established in March 2003 on the basis of the SDA to continue the duties of the SDA in respect of pharmaceutical matters as well as to coordinate and supervise the safety management of food products, health products and cosmetics in the PRC.

The major responsibilities of the SFDA in respect of pharmaceutical products and health care products include:

(a) formulating and supervising the implementation of laws and regulations concerning drug and health care products administration;

(b) promulgating industry standards for the State pharmaceutical products, health care products and medical appliances;

(c) formulating and administering classification of pharmaceutical products and medical appliances for the purpose of regulation;

(d) evaluating, registering and approving pharmaceutical products;

(e) granting permits for the manufacture and export of pharmaceutical products and medical appliances;

(f) approving the establishment of enterprises engaged in the manufacture and distribution of pharmaceutical products;

(g) formulating, revising and supervising the implementation of the quality control standards concerning the research, production, trading and use of pharmaceutical products;

(h) supervising of pharmaceutical products and quality of medical appliances;

(i) investigating and penalizing illegal acts relating to production and trading of fake or inferior pharmaceutical products and medical appliances;

(j) formulating and administering the classification of prescription medicines and over-the-counter medicines; and

(k) formulating and revising the National Essential Medicines List (國家基本藥物目錄).

Ministry of Health

The Ministry of Health ("MOH") is responsible for the supervision of public health and hygiene in China. MOH is an authority at the ministerial level under the direct supervision of the State Council and is primarily responsible for the national public health. Prior to the formation of the SFDA, the MOH was responsible for monitoring, supervising and formulating the rules and policies for the pharmaceutical industry in the PRC. Following the establishment of the SFDA, the MOH is responsible for the overall administration of the national public health in the PRC (excluding the pharmaceutical industry). MOH performs several duties in relation to the health industry such as the establishment of medical institutions and the formulation of codes of conduct for public health personnel.

Permits and licenses for pharmaceutical manufacturing enterprises

A pharmaceutical manufacturer must obtain a Pharmaceutical Manufacturing Permit (藥品生產許可證), (formerly known as Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證)) issued by the relevant provincial drug administration authority where the pharmaceutical manufacturer is located before the commencement of the production business of medicines in the PRC. Subject to inspection and assessment, the permit will be issued. The permit is valid for a period of five years. Pharmaceutical manufacturing enterprises should apply for renewal of their permits not later than six months prior to the expiry date subject to reassessment conducted by the relevant authority.

After obtaining the above permits, the relevant industry and commerce department will issue a "business license".

For the production of medicines, pharmaceutical manufacturer needs to apply for a production permit of each of the medicines from the SFDA prior to commencement of production.

GMP

In order to improve the quality of production of medicines, the GMP was introduced in China in the 1980's. The GMP is a set of standards to ensure the production management and quality management of medicines. Strict controls are placed on qualification of staff, production premises and facilities, equipment, raw materials, hygiene conditions, production management, quality management, maintenance of sales records, maintenance of customers complaints and anti-feedback reports.

The World Health Organisation ("WHO") also encourages the adoption of GMP to ensure the high quality of medicines. Many countries have introduced their own GMP. The primary objectives of the GMP are as follows:

(a) Minimize errors in production;

(b) Prevention of contamination of pharmaceutical products; and

(c) Maintenance of management system to ensure the high quality.

The GMP currently applicable in the PRC is the 1998 revised version promulgated by the SDA in June 1999. This version of the GMP has been effective since 1 August 1999. For GMP certification process, the "Measures regarding the Administration of Pharmaceutical GMP Certification" (藥品GMP認證管理辦法) and the "Working Procedures of Pharmaceutical GMP Certification" (藥品GMP認證工作程式) were issued by the SDA in April 1999 and were superseded by "Measures on the Certification of GMP" (藥品生產質量管理認證管理辦法) issued by the SFDA in December 2002. The SFDA is responsible for the GMP certification. The certification for newly established manufacturing enterprise or workshop is valid for one year. Upon successful review and checking upon expiry, the GMP certificate is valid for a term of another five years. Three months prior to the expiry dates of GMP certificates, manufacturers are required to apply for renewal of GMP certificates and are subject to reassessment process.

According to the "Notice on the Implementation of the GMP" (關於實施《藥品生產質量管理規範》有關規定的通知) issued on 24 August 1999, the SDA enforced the GMP certification compliance procedure and required that pharmaceutical manufacturers producing powder for injection (including lyophilized powder for injection) and large volume injection products must comply with the GMP and pass the certification process by the end of 2000. For manufacturers of small volume injection products, they must comply with the aforesaid requirement by the end of 2002.

On 12 October 2001, the "Notice on the acceleration of the Implementation and Supervision of the GMP" (關於全面加快監督實施藥品GMP工作進程的通知) was issued by the SDA to accelerate the full implementation of the GMP in the PRC. It requires that all pharmaceutical manufactures must comply with the GMP and obtain the GMP certification by 30 June 2004. The Pharmaceutical Manufacturing Permits of those manufacturers who fail to obtain GMP certification by the deadline will not be renewed. These manufacturers will also be prohibited from carrying on production business of pharmaceutical products in the PRC.

In December 2004, over 3,700 pharmaceutical manufacturers in the PRC had met the standard of the GMP and obtained GMP certification.

Approval and registration of pharmaceutical products

The "Measures on Registration and Administration of Medicines (Trial)" (藥品註冊管理辦法(試行)) was promulgated by the SDA in October 2002 and became effective on 1 December 2002. The main objective is to guarantee the safety and quality control of pharmaceutical products. The measures superseded the "Measures on the Approval of New Medicines" (新藥審批辦法), the "Approval Procedure of New Biological Medicines" (新生物製品審批辦法), the "Regulations on the New Medicines Protection and Technology Transfer" (新藥保護和技術轉讓的規定), the "Approval Procedure of Imitated Medicines" (仿製藥品審批辦法) and the "Measures on the Administration of Imported Medicines" (進口藥品管理辦法). These Measures are applicable to approval of clinical research, production and import of medicines.

Registration of new pharmaceutical products

For application of registration of new medicines in the PRC, pharmaceutical manufacturers must obtain approval from the SFDA to carry out clinical research. Applicants need to submit relevant pre-clinical study information and other relevant reports to the provincial drug administration authority. Upon receipt of the application, the provincial drug administration authority will then review the applicant's submission and conduct on-site inspection to collect drug samples to be examined by the specified drug examination laboratories appointed by the State. Reports will be delivered to the SFDA. The SFDA will then set up an expert team comprising of pharmaceutical professionals and other specialists to conduct technical assessment of the subject new medicine and decide whether the clinical research should be commenced.

Following successful completion of clinical research, applicants have to submit clinical research information and raw material samples to the provincial drug administration authority and the drug examination laboratories appointed by the State for application for approval to manufacture the new medicines. The provincial drug administration authority will then review the submission materials and conduct on-site inspection at the production premises of the applicants. The drug examination laboratories appointed by the State will then collect three consecutive production batches of drug samples for examination. After investigation and assessment, the provincial drug administration authority and the examination laboratories appointed by the State will produce reports to the SFDA. SFDA will carry out a final review of the application of the subject new medicine. Upon fulfillment of the relevant requirements and approval by the SFDA, the applicants will be granted a Certificate of New Medicine (新藥證書) and a Medicine Approval Document (藥品批准文號) provided that the applicant possesses the Pharmaceutical Manufacturing Permit (藥品生產許可證) and possesses the relevant production requirements.

After granting approval of the production of the new medicine, the SFDA may set a monitoring period of not more than five years to monitor the safety of the new medicine. It requires the relevant pharmaceutical manufacturers to examine the production technology, the quality, stability, curative effects and unfavourable side-effects of the new medicine from time to time and report to the provincial drug administration authority timely. During such monitoring period, the SFDA will not approve the clinical trial of the new medicine of the same type conducted by other pharmaceutical manufacturers and no application for registration of a new medicine of the same type will be accepted by the SFDA.

Clinical examinations

Pre-clinical research

In order to apply for registration of medicines, a series of pre-clinical researches have to be conducted before registration including researches on the synthesis technology, extraction methods, physical and chemical nature and purity, drug forms, selection of prescriptions, manufacturing technology, examination method, quality indicators, stability, pharmacology, toxicology and animal pharmacokinetics of drugs.

All pre-clinical researches of new medicines should be conducted in compliance with the relevant technological guidelines issued by the SFDA after the approval by the authority.

There are four phases of clinical trials, namely Phase I, II, III and IV. Application for registration of new medicines requires performing of Phase I, II and III of clinical trials. Under certain circumstances, only Phase II and III or only Phase III clinical trials are needed to be performed.

Clinical research

Phase I

Phase I – preliminary trial of clinical pharmacology and assessment of safety for human body. The primary objective is to observe the pharmacokinetics and the tolerance level of human body to the new medicine as a basis for ascertaining the appropriate methods of dosage.

Phase II

Phase II – stage of assessment of treatment effect. The objective is to assess preliminarily the treatment effect and safety of pharmaceutical products on targeted therapeutic patients and to provide the basis for the designing researches and dosage tests for Phase III. The design and methodology of researches in this phase may vary from time to time according to the specific purposes of researches.

Phase III

Phase III – stage of verification of treatment effect. The objective is to further verify the treatment effect and safety of pharmaceutical products on targeted therapeutic patients, to evaluate the benefits and risks and finally to provide sufficient experimental proven evidence to support the registration application of the medicine. In general, the trial should adopt random method with sufficient sample sizes.

Phase IV

Phase IV – stage of application with researches conducted by the applicants themselves after the launch of new medicine. The objective is to observe the treatment effects and the drawbacks or side-effects of pharmaceutical products under the extensive use, to perform evaluation on benefits and risks of the application among ordinary or special group of people, and to ascertain the appropriate dosage volume for application.

Registration of medicines with national standards already

Applicants for the registration of medicines with national standards must be pharmaceutical enterprises holding Pharmaceutical Manufacturing Permit (藥品生產許可證) and awarded GMP certificates. The medicines to be registered should be within the same production areas of these permits and certificates.

To apply for approval of manufacturing a medicine with a national standard, the applicant should submit relevant information and drug samples prepared in accordance with the relevant national standard to the provincial drug administration authority. The provincial drug administration authority will then review the submission and conduct on-site investigation at the production premises. Three consecutive production batches of drug samples will be collected and examined by the drug laboratories appointed by the State. Following their investigation and assessment of the application, the provincial drug administration authority and the laboratory appointed by the State will produce reports to the SFDA, which will conduct a final assessment of the application to consider approving the registration of the medicine. Upon successful final assessment of the application, the new medicine will be granted a Medicine Approval Document (藥品批准文號).

Registration of imported medicines

Application for imported medicines produced by foreign manufacturers will be approved if such medicines have already been approved to be sold in the manufacturer's home country. If not so, the relevant medicine has to be confirmed by the SFDA as safe, effective and under clinical demand. Also, manufacturers of imported medicines have to comply with the relevant requirements of the GMP adopted by the manufacturer's home country as well as those adopted in the PRC.

Registration of imported medicines requires the support of experimental proven evidence obtained from the clinical research and the approval from SFDA to perform clinical research for the medicine must first be obtained. After the clinical research on the subject medicine is completed, applicants are required to submit the relevant clinical research information, drug samples and additional information to the SFDA. Laboratories appointed by the State will examine the drug samples and report the results to the SFDA. The SFDA will then perform a final review on the application of the subject medicine proposed to be imported. Upon approval by the SFDA, the applicant will be granted a Certificate of Registration of Imported Medicine (進口藥品註冊證), or a Certificate of Registration of Pharmaceutical Product (醫藥產品註冊證) where the applicant is a pharmaceutical manufacturer in Hong Kong, Macau or Taiwan.

Supplemental Registration

Supplemental Application refer to the amendment made to the details of the registered medicine including but no limited to the drug standard, curative effects, labeling and production technology. Applicant or the holder of the relevant registration certificate for such medicine are required to submit the relevant documents and drug samples. The provincial drug administration authority and SFDA are responsible for approval of the application depending the contents of supplemental registration.

Prescription medicines and over-the-counter medicines

For the safety of the public health, SDA issued the "Administrative Measures regarding the Classification of Prescription Medicines and Over-the-counter Medicines (Trial)" (處方藥與非處方藥分類管理辦法(試行)) in June 1999 which came into effect on 1 January 2000. The measures specified the classification of prescription medicines and over-the-counter medicines based on type, specification, therapeutic functions, dosages, and intake methods. Prescription medicines must be dispensed, purchased and used under the prescriptions from practicing doctors. Over-the-counter medicines are further classified into category A and category B. Purchase of over-the-counter medicines does not require doctor prescriptions and can be made at the discretion of users. SFDA is responsible for the selection, approval, announcement and amendment of the Over-the-counter Medicines Catalogue (非處方藥目錄).

Wholesalers of prescription medicines and all over-the-counter medicines and retailers of prescription medicines and over-the-counter category A medicines must have the Pharmaceutical Trading Enterprise Permit (藥品經營企業許可證). Subject to the approval of SFDA or their delegates, other commercial enterprises can carry on retail business of over-the-counter category B medicines. Prescription medicines can be advertised in professional medical journals whereas over-the-counter medicines can be advertised in any other mass media.

SFDA issued the "Notice on Strengthening Controls on Sale of Antibacterial Agents in Retail Pharmacy Stores" (關於加強零售藥店抗菌藥物銷售監管合理用藥的通知) (the "Notice") on 24 October 2003, and the Notice became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians.

Medical Insurance System

According to the "State Council Decision On the Establishment of the Basic Medical Insurance System of Staff in Cities and Town" (國務院關於建立城鎮職工基本醫療保險制度的決定) promulgated by the State Council in December 1998, the Ministry of Labor and Social Security (勞動和社會保障部) has assumed the role for the social medical insurance system reform and issued the Insurance Catalogue in 2000. Medical expenses paid out of the social medical fund can be used for the purchase of medicines listed in the Insurance Catalogue.

Advertising

Pharmaceutical manufacturers and sellers in the PRC need to comply with the advertising requirements laid out in the "Reviewing Standards of Advertisement of Pharmaceutical Products" (藥品廣告審查標準), the "Notice on Strict Review and Supervision of Advertisements of Pharmaceutical Products" (關於加強藥品廣告審查監督管理工作的通知) and the "Notice on Application of the (Implementation Regulations of the Law on the Administration of Pharmaceuticals) for Strict Review Standards of Advertisements of Pharmaceutical Products" (關於貫切《藥品管理法實施條例》加強藥品廣告審查管理工作的通知) issued on 28 March 1995, 5 November 2001 and 5 September 2002 respectively. They prescribe the standards of advertisement applicable to pharmaceutical products. Prescription antibiotics cannot be advertised in mass media.

The Office of Review and Supervision of Pharmaceutical Advertisements of SFDA (國家食品藥品監督管理局廣告審查監督辦公室) is responsible for reviewing and supervising local offices of SFDA on their work or administration and approval of pharmaceutical advertisements.

Product liability and protection of consumers

Product liability claims may arise if the products sold have any harmful effect on the consumers. The injured party can claim for damages or compensation. The "General Principles of the Civil Law of the PRC" (中華人民共和國民法通則) which was effective from January 1987 states that manufacturers and sellers of defective products causing property damage or injury may incur civil liabilities.

The "Product Quality Law of the PRC" (中華人民共和國產品質量法) was enacted in 1993 and amended in 2000 to strengthen quality control of products and protect consumers' rights. This law states that manufacturers producing defective products can be liable for criminal liability and revocation of business licensees.

The "Law of the PRC on the Protection of the Rights and Interests of Consumers" (中華人民共和國消費者權益保護法) was promulgated on 31 October 1993 and enacted from 1 January 1994 which protect consumers' rights when they purchase or use goods and accept services. All business operators have to comply with this law when they manufacture or sell goods and/or provide services to customers. Business operators have to assume criminal liability if their goods or services lead to death of customers.

Trademarks

Registered trademarks in the PRC are protected under the "Trademark Law of the PRC" (中華人民共和國商標法) and the "Implementation Regulations for the Trademark Law of the PRC" (中華人民共和國商標法實施條例). The "Regulations Regarding to Pharmaceutical Products Packaging and Labelling (Tentative)" (藥品包裝、標籤規範細則（暫行）) stipulates that pharmaceutical products with the same drug specification and packaging specification that are produced by the same manufacturer are not allowed to use different trademarks.

Environmental Protection

Pharmaceutical manufacturers in the PRC also need to comply with the relevant laws and regulations passed by the State and local government environmental protection departments. The major relevant laws are the "Environmental Protection Law of the PRC" (中華人民共和國環境保護法), the "Prevention of Water Pollution Law of the PRC" (1996 revised) (中華人民共和國水污染防治法（1996年修正）), the "Implementation Rules of the Prevention of Water Pollution Law of the PRC" (中華人民共和國水污染防治法實施細則), the "Prevention of Solid Waste Pollution Law of the PRC" (Amended) (中華人民共和國固體廢物污染環境防治法（修訂）), the "Prevention of Air Pollution Law of the PRC" (Second Revision) (中華人民共和國大氣污染防治法（第二次修正）).

Local governments can impose fines and/or order of termination to the manufacturers who breach the above laws and regulations.

Pricing policy

Certain pharmaceutical products sold in the PRC are under price control by the relevant PRC authorities. Generally, pharmaceutical products sold in the PRC are divided into two groups: (1) government-pricing pharmaceutical products and (2) market-pricing pharmaceutical products.

Group (1) products which are approved by the State Development and Reform Commission (國家發展和改革委員會) include Category A and Category B pharmaceutical products. Retail prices of Category A pharmaceutical products listed in the Insurance Catalogue and with monopolistic nature are subject to ceiling prices set by the State Development and Reform Commission. Retail prices of Category B pharmaceutical products listed in the Insurance Catalogue are subject to the ceiling prices determined by provincial price setting bureaus (省物價局) based on the price setting principles to the State. Pharmaceutical manufacturers can determine the actual selling prices of their products provided that such selling prices are lower than the ceiling retail prices set by the relevant authorities.

Pursuant to the "Notice Regarding Rules on Application for the Prices of Pharmaceutical Products" (關於印發藥品政府定價申報審批辦法的通知) issued by the State Development and Reform Commission in November 2001, the ceiling retail prices of the pharmaceutical products are normally subject to review of the relevant government authorities on an annual basis. During the year, such ceiling prices can also be adjusted by the relevant government authorities based on market prices. In addition, pharmaceutical manufacturers can apply for adjustment of such ceiling prices based on changes in market demand and supply and production cost.

Referring to the "Opinions on the Reform of Price Control on Pharmaceutical Products" (關於改革藥品價格管理的意見) issued by the State Development Planning Commission in July 2000, the PRC government intended to reduce the number of pharmaceutical products subject to price control.

Prices of group (2) products are determined by manufacturers based on market demand and production costs.

Sales of pharmaceutical products by pharmaceutical manufacturers in the PRC to overseas market are not subject to any price control by the PRC government.

Centralised tendering system for drug purchases by medical organisations

Centralised tendering system for drug purchased by medical organisations has been introduced in China to enhance the transparency of pricing of pharmaceutical products. After the announcement of the "Notice on Issuing Certain Regulations on the Trial Implementation of Centralised Tender Purchase of Drugs by Medical Organisations" (關於印發醫療機構藥品集中招標採購試點工作若干規定的通知) and the "Notice on Further Improvement on Implementation of Centralised Tender Purchase of Drugs by Medical Organisations" (關於進一步做好醫療機構藥品集中招標採購工作的通知) on 7 July 2000 and 23 July 2001 respectively, the PRC government issued the "Tentative Implementation Measures of Centralised Tender Purchase of Drugs by Medical Organisations" (醫療機構藥品集中招標採購監督管理暫行辦法), on 12 November 2001 to regulate centralised tendering activities.

Non-profit medical organisations of county level or above which are run by the government or state-owned enterprises (including state-owned holding companies) in the PRC are required to implement collective tender systems for the purchase of drugs. There are three kinds of drugs regulated under this policy, namely, drugs listed in the Insurance Catalogue, clinical drugs that are commonly used and bulk purchased, and others drugs stipulated by government health authorities or medical organisations running centralised tendering system. The bids are then assessed by assessment committees formed by pharmaceutical experts based on quality, price and reputation of the bidders. The introduction of this policy is aimed to lead to competition among suppliers and subsequently reduce the retail prices for the benefits of consumers and the society.

The issuance of the "Certain Regulations on Further Restriction of Centralised Tender Purchase of Drugs by Medical Organisations" (關於進一步規範醫療機構藥品集中招標採購的若干規定) promulgated by the Ministry of Health and the State Development and Reform Commission on 23 September 2004 further expanded the application of centralised tendering system to pharmaceutical products (save for Chinese medicine slices) which account for more than 80% of the total expenses on purchase of medicines by medical organisations. The regulations also encourage medical organisations to conduct the open tenders, proceed with the bidding process and conclude the transactions on the Internet to improve the transparency of centralised tender process and facilitate the supervision by government and public.

DESCRIPTION OF BUSINESS

The Group is one of the leading pharmaceutical manufacturers in the PRC. According to the statistics of the China Pharmaceutical Enterprises Management Association (中國醫藥企業管理協會), the Group was ranked among the top 100 pharmaceutical manufacturers of 2004 in terms of revenue. The Group is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products which can be broadly categorised into finished medicines and bulk pharmaceuticals.

As at the Latest Practicable Date, Xi'an Lijun, the principal non wholly-owned subsidiary of the Company, had obtained production approvals for the production of more than 300 pharmaceutical products, of which approximately 116 of them were regularly produced by Xi'an Lijun. Among these regularly produced pharmaceutical products, nine products are bulk pharmaceuticals and the remaining 107 products are finished medicines, of which approximately 15 are OTC medicines and approximately 92 products are prescription medicines. As at the Latest Practicable Date, Xi'an Lijun had 85 regularly produced products included in the Insurance Catalogue. As at the Latest Practicable Date, the Group had obtained production approvals for the production of three health care products which had not yet started mass production. The Group had not generated any sales from health care products for the Track Record Period.

The Group's finished medicines are used in the treatment of various diseases, in particular, microbial infection and cardiovascular disease and are mainly in the forms of tablet, capsule, granule, injection, powder for injection and lyophilized powder for injection. Though the Group produces a wide variety of pharmaceutical products, it is renowned for the manufacturing of antibiotics. All of the antibiotics currently produced by the Group are prescription medicines. Antibiotics manufactured by the Group include mainly macrolides and cepahlosporins, which are mainly applied in the treatment of various microbial infections. Lijunsha (利君沙), which is a kind of erythromycin ethylsuccinate, is one of the major antibiotics products of the Group and was awarded "Well-known Trademark" (馳名商標) in 2002 and "the Ten Most Favored Brands Elected by the Public" (十大公眾最喜愛商標) in the PRC in 2002 and 2003. According to a research report by Orient Health e-Commerce (Beijing) Ltd. (東方健康電子商務(北京)有限公司), consumption amount of Lijunsha accounted for approximately 65.6% of the total consumption amount of erythromycin ethylsuccinate in sample hospitals in 16 cities in the PRC in 2003. For the three years ended 31 December 2004 and the six months ended 30 June 2005, the sales of Lijunsha were approximately RMB531.9 million, RMB530.0 million, RMB489.8 million and RMB203.4 million, representing approximately 61.8%, 59.1%, 54.2% and 47.0% of the Group's total sales respectively.

With the aim to diversify the Group's product range, in April 2003, Xi'an Lijun entered into an agreement with Xi'an Yi Li Fertilizer Factory (西安毅力复合肥廠) ("Yi Li Fertilizer") and Shaanxi Weinan Pharmaceutical Factory (陝西省渭南地區製藥廠) ("Weinan Pharmaceutical") for the enlargement of the registered capital in Shaanxi Heng Xin Tang Pharmaceutical Co., Ltd. (陝西省恒心堂製藥有限公司) ("Shaanxi Heng Xin Tang") and the capital contribution by Xi'an Lijun. Both Yi Li Fertilizer and Weinan Pharmaceutical are Independent Third Parties. Subsequent to the takeover by Xi'an Lijun, Shaanxi Heng Xin Tang changed its name to Heng Xin Tang. The PRC legal adviser to the Company confirmed that all necessary approvals from the relevant authorities had been obtained for Xi'an Lijun's investment in Heng Xin Tang. Since then Heng Xin Tang has been owned as to 51% by Xi'an Lijun, 43.57% by Yi Li Fertilizer and the remaining 5.43% by Weinan Pharmaceutical. Heng Xin Tang is principally engaged in the manufacture of Chinese medicines in the PRC and, as at the Latest Practicable Date, it had obtained production approvals for the production of more than 90 Chinese medicines in the PRC, of which approximately 80 are regularly produced by Heng Xin Tang. As at the Latest Practicable Date, Heng Xin Tang had 55 regular Chinese medicines included in the Insurance Catalogue. All of Heng Xin Tang's Chinese medicines are currently sold in the PRC. Before the takeover by Xi'an Lijun, Heng Xin Tang's production line was not up to the standard of the GMP. In order to comply with the GMP which became compulsory in July 2004, in the middle of 2004, Heng Xin Tang overhauled its production facilities. Heng Xin Tang obtained a GMP certificate for its production in December 2004 and re-commenced the production in January 2005.

HISTORY AND DEVELOPMENT

Corporate restructuring

The Group was founded when Xi'an Lijun Pharmaceutical Stock Co., Ltd. (西安利君製藥股份有限公司) was first established by seven promoters on 28 November, 1999 with a registered share capital of RMB210.9 million. At the time of establishment, Xi'an Lijun Pharmaceutical Stock Co., Ltd. was owned as to approximately 48.51% by Rejoy Group, approximately 47.23% by Rejoy Technology, approximately 0.95% by Shenzhen Jinhuo Enterprise Co., Ltd. (深圳市金活實業有限公司) ("Shenzhen Jinhuo"), approximately 0.95% by Xi'an Combel Pharmaceutical Co., Ltd. (西安康拜爾製藥有限公司) ("Xi'an Combel"), approximately 0.95% by Chongqing Bei'en Pharmaceutical Group Co., Ltd. (重慶市北恩醫藥集團有限公司) (formerly known as Chongqing Bei'en (Group) Co., Ltd. (重慶北恩(集團)有限公司)) ("Chongqing Bei'en"), approximately 0.95% by Shaanxi Agricultural and Electric Administration Bureau (陝西省農電管理局) ("Agricultural and Electric Administration Bureau") and the remaining approximately 0.47% by Liaoning Huabang Pharmaceutical Co., Ltd. (遼寧華邦醫藥有限公司) ("Liaoning Huabang") (formerly known as Pharmaceutical Sales Department of Northeast Pharmaceutical Group Company (東北製藥集團公司醫藥經營部)).

As part of the PRC national policy to "privatise" state-owned assets (實現投資主體多元化), the Shaanxi Provincial Government, which held (and still holds) all the interests in Rejoy Group privatised the pharmaceutical manufacturing business of Rejoy Group by injecting such business into a newly established entity. As part of the privatisation process, it was decided that some of the employees of Rejoy Group would hold interests in Xi'an Lijun. At the end, these employees of Rejoy Group (including the present senior management of Xi'an Lijun) established Rejoy Technology.

Rejoy Technology, established in the PRC with limited liability, is wholly-owned by the beneficial shareholders of Prime United Industries Limited, one of the Controlling Shareholders. Shenzhen Jinhuo is a company established in the PRC with limited liability and its entire registered capital is wholly-owned by the beneficial shareholders of Flying Success Investments Limited, one of the Controlling Shareholders. Xi'an Combel is a company established in the PRC with limited liability and its entire registered capital is wholly-owned by the beneficial shareholders of Fame World Investments Limited, one of the Controlling Shareholders. Liaoning Huabang is a company established in the PRC with limited liability and its entire registered capital is wholly-owned by the beneficial shareholders of Bondwide Trading Limited, one of the Controlling Shareholders. Details of the beneficial shareholders of Prime United Industries Limited, Flying Success Investments Limited, Fame World Investments Limited and Bondwide Trading Limited are set out in the paragraph headed "Group Structure" in the section headed "Business" of this prospectus. Chongqing Bei'en is a company established in the PRC with limited liability and an Independent Third Party. Agricultural and Electric Administration Bureau is an Independent Third Party.

Rejoy Group paid up the registered share capital of Xi'an Lijun Pharmaceutical Stock Co., Ltd. by way of injecting the production lines of Shaanxi Xi'an Pharmaceutical Factory (陝西省西安製藥廠), a wholly-owned subsidiary of Rejoy Group, and the remaining six promoters paid up their respective contributions to the registered share capital in Xi'an Lijun Pharmaceutical Stock Co. Ltd. in cash.

In November 2002, Chongqing Bei'en entered into a share transfer agreement with Chongqing Guozhan Enterprise Co., Ltd. (重慶國展實業有限責任公司) ("Chongqing Guozhan"), pursuant to which Chongqing Bei'en agreed to transfer approximately 0.47% equity interest in Xi'an Lijun Pharmaceutical Stock Co., Ltd. to Chongqing Guozhan.

In December 2002, Chongqing Bei'en entered into a share transfer agreement with Xi'an Sanjiang Enterprise (Group) Co., Ltd. (西安三江實業(集團)有限責任公司) ("Xi'an Sanjiang"), pursuant to which Chongqing Bei'en agreed to transfer approximately 0.47% equity interest in Xi'an Lijun Pharmaceutical Stock Co., Ltd. to Xi'an Sanjiang. Xi'an Sanjiang is a company established in the PRC with limited liability and the entire registered capital of which is wholly-owned by the beneficial shareholders of Triuniverse Group Limited, one of the Controlling Shareholders. Details of the beneficial shareholders of Triuniverse Group Limited are set out in the paragraph headed "Group Structure" in the section headed "Business" of this prospectus.

In February 2003, Agricultural and Electric Administration Bureau entered into a share transfer agreement with Xi'an Sanjiang, pursuant to which Agricultural and Electric Administration Bureau agreed to transfer its entire equity interest in Xi'an Lijun Pharmaceutical Stock Co., Ltd. of approximately 0.95% to Xi'an Sanjiang.

In April 2003, Chongqing Guozhan entered into a share transfer agreement with Shenzhen Jinhuo, pursuant to which Chongqing Guozhan agreed to transfer its total equity interest in Xi'an Lijun Pharmaceutical Stock Co., Ltd. of approximately 0.47% to Shenzhen Jinhuo.

Following the completion of the aforesaid share transfers, Xi'an Lijun Pharmaceutical Stock Co., Ltd. was owned as to approximately 48.51% by Rejoy Group, approximately 47.23% by Rejoy Technology, approximately 1.42% by Shenzhen Jinhuo, approximately 0.95% by Xi'an Combel, approximately 1.42% by Xi'an Sanjiang and the remaining approximately 0.47% by Liaoning Huabang.

In view of the prospect and potential of Chinese medicine business and leveraging on the Group's experience in the pharmaceutical industry in the PRC, the Group decided to expand into Chinese medicine business, which the Directors believe should bring business synergies to the Group. The Directors considered that acquisition of an established company engaged in Chinese medicine business was a more efficient way than development of such a new business by the Company itself taking into account the considerable amount of time involved in setting up a new business. In April 2003, Xi'an Lijun entered into an agreement with Yi Li Fertilizer and Weinan Pharmaceutical for the enlargement of the registered capital in Shaanxi Heng Xin Tang and the capital contribution by Xi'an Lijun. Both Yi Li Fertilizer and Weinan Pharmaceutical were Independent Third Parties.

According to the aforesaid agreement, Xi'an Lijun agreed to inject RMB7.65 million into Shannxi Heng Xin Tang of which RMB5.10 million represented contribution to the registered capital of Shaanxi Heng Xin Tang, RMB1 million as working capital of Shaanxi Heng Xin Tang and the remaining of RMB1.55 million being contribution to the capital public reserve fund (資本公積金). The RMB7.65 million investment amount was arrived at after arms' length negotiation between the parties to the agreement with reference to the unaudited net asset value of Heng Xin Tang of approximately RMB5.75 million as at 30 November 2002 plus a premium. Subsequent to the takeover by Xi'an Lijun, Shaanxi Heng Xin Tang changed its name to Heng Xin Tang and its registered share capital was increased to RMB10 million in which Xi'an Lijun has a 51% equity interest. The PRC legal adviser to the Company confirmed that all necessary approvals from the relevant authorities had been obtained for Xi'an Lijun's investment in Heng Xin Tang. Since the capital contribution by Xi'an Lijun, Heng Xin Tang has been owned as to 51% by Xi'an Lijun, 43.57% by Yi Li Fertilizer and the remaining 5.43% by Weinan Pharmaceutical, and the board of directors of Heng Xin Tang has comprised a total of seven directors, of which four were appointed by Xi'an Lijun and the remaining three were appointed by Yi Li Fertilizer and Weinan Pharmaceutical.

In March 2004, Xi'an Lijun Pharmaceutical Stock Co., Ltd. passed a resolution at the annual general meeting and obtained related approvals to transform itself from a joint stock limited company into a limited liability company with all other things (including, but not limited to, registered share capital and shareholding structure) remaining unchanged. The company name was subsequently changed to Xi'an Lijun Pharmaceutical Co., Ltd (西安利君製藥有限責任公司).

In July 2004, 4,965 beneficial owners of Rejoy Technology (who hold an aggregate of approximately 84.73% equity interest in Rejoy Technology) executed a joint deed of trust ("Deed of Trust"), pursuant to which Wu Qin, Wu Zhihong, Huang Chao, Xie Yunfeng and Han Yamei ("Joint Trustees") were appointed to hold jointly on trust for each of the 4,965 beneficial owners their respective equity interests in Rejoy Technology. The remaining interest in Rejoy Technology were held approximately as to 2.43% by Wu Qin, 2.43% by Wu Zhihong, 2.41% by Huang Chao, 4% by Xie Yunfeng and 4% by Han Yamei in their capacity as individual shareholders. Prime United Industries Limited was set up, approximately 84.73% of the shareholding of which are held by the Joint Trustees jointly on trust for each of the abovementioned 4,965 beneficial owners in the same proportion as their respective equity interests in Rejoy Technology, whereas the remaining shareholding of which is held by the Joint Trustees in their capacity as individual shareholders in the same proportion as their respective equity interests in Rejoy Technology. The PRC legal adviser to the Company confirmed that the trust arrangement under the Deed of Trust did not contravene any PRC laws and regulations and was legally effective.

As part of the PRC national policy to "privatise" state-owned assets (實現投資主體多元化), in September 2004, Rejoy Group and SPC entered into a sale and purchase agreement ("Transfer Agreement") with Victory Rainbow Investment Limited ("Victory Rainbow") pursuant to which Rejoy Group agreed to sell approximately a 28.51% equity interest in Xi'an Lijun to Victory Rainbow for a cash consideration of approximately RMB126.27 million. The consideration for the disposal of 28.51% equity interest in Xi'an Lijun to Victory Rainbow was arrived at (i) with reference to an independent valuation of the net assets value of Xi'an Lijun at RMB326,778,100 as at 31 December 2003; (ii) a premium of 35.46% over 28.51% of the net assets value of Xi'an Lijun of approximately RMB93.2 million was negotiated on an arm's length basis between Shaanxi Provincial Government, on behalf of which Rejoy Group, and Victory Rainbow. Such consideration has been approved by the Shaanxi Provincial Government and the State-owned Assets Supervision and Administration Commission of the Shaanxi Provincial Government (陝西省人民政府國有資產監督管理委員會). Upon completion of such share transfer, Xi'an Lijun was owned as to 20.0% by Rejoy Group, approximately 28.51% by Victory Rainbow, approximately 47.23% by Rejoy Technology, approximately 1.42% by Shenzhen Jinhuo, approximately 0.95% by Xi'an Combel, approximately 1.42% by Xi'an Sanjiang and the remaining approximately 0.47% by Liaoning Huabang.

In addition, it was agreed between SPC, Rejoy Group and Victory Rainbow under the Transfer Agreement that after completion of the abovementioned transfer of 28.51% equity interest in Xi'an Lijun, Victory Rainbow would transfer an 8.51% equity interest in Xi'an Lijun to the management of Xi'an Lijun or to a foreign incorporated company held by the management of Xi'an Lijun. Subsequent to the execution of the Transfer Agreement, there was a slight modification to the Reorganisation and it was agreed between SPC, Rejoy Group and Victory Rainbow that instead of transferring an 8.51% equity interest in Xi'an Lijun, such transfer would take place after the transfer of 80% equity interest in Xi'an Lijun to the Company on 28 December 2004 (as set out below in this section of this prospectus) and it would take the form of a transfer from Victory Rainbow (which by then had become interested in 35.64% of the issued share capital of the Company) of 1,064 Shares (constituting 10.64% of the issued share capital in the Company which by then had become interested in 80% of Xi'an Lijun) to Success Manage International Limited ("Success Manage"), the shareholders which comprise members of management of Xi'an Lijun.

Pursuant to the terms of the Transfer Agreement, SPC and Rejoy Group also undertook to Victory Rainbow that upon the expiry of six months after the Listing Date and, subject to the approvals of the Stock Exchange and the state-owned assets department of the Shaanxi Provincial Government, the remaining 20% equity interest in Xi'an Lijun held by Rejoy Group would be transferred to the Company (the "Proposed Transaction"), with the basis of such consideration being 75% of the average closing price of the Shares as quoted on the Stock Exchange for the 90 consecutive days immediately prior to written request being made by Rejoy Group and/or SPC for such transfer. The Directors confirm that it is also the intention of the Company to acquire the remaining 20% equity interest in Xi'an Lijun from Rejoy Group after the listing of the Shares on the Main Board.

The consideration for the Proposed Transaction as stated in the Transfer Agreement was determined by SPC, Rejoy Group and Victory Rainbow at the time when the Transfer Agreement was executed on 1 September 2004. No member of the Group is a party to the Transfer Agreement. Accordingly, the consideration for the Proposed Transaction stated in the Transfer Agreement is not binding on any member of the Group. To the best of the knowledge of the Directors, the said consideration was arrived at after negotiations between the parties at the time without reference to the requirements of the Listing Rules.

The parties to the Transfer Agreement have acknowledged that if the acquisition of 20% interest in Xi'an Lijun by the Company is to proceed after the Listing, the consideration will be subject to the requirements of the Listing Rules and will be determined by the Company and Rejoy Group on an arm's length basis in accordance with the relevant requirements regarding the transfer of state-owned interests in the PRC. The parties to the Transfer Agreement have further acknowledged and agreed that the consideration then determined in accordance with the requirements of the Listing Rules will represent the final consideration in respect of such transfer and that no legal action will be commenced by any of the parties to the Transfer Agreement against the others in the event of there being a discrepancy between the final consideration and the one stated in the Transfer Agreement.

The PRC legal adviser to the Company has confirmed that the "Provisional Regulations on Transfer of State-owned Property Rights to the Management" (企業國有產權向管理層轉讓暫行規定) promulgated on 11 April 2005 have not implemented further requirements for approval in respect of transfers of state-owned shares to management and that all such transfers should comply with the requirements of the "Notification of Regulating Opinion on State-owned Enterprise Reform Works" (關於規範國有企業改制工作意見的通知), the "Provisional Rules on Transfer of State-owned Property Rights" (企業國有產權轉讓管理暫行辦法) (both promulgated in 2003) and other regulations. Pursuant to the "Provisional Regulation on Transfer of State-owned Property Rights to the Management" (企業國有產權向管理層轉讓暫行規定), (i) the large state-owned or state-holding enterprises and their important wholly-owned or controlled enterprises which are engaged in the principal businesses of those large enterprises and (ii) the state-owned shares of listed companies are not allowed to be transferred to their management. The PRC legal adviser to the Company considered that Xi'an Lijun is not classified as any of the above-mentioned enterprises, and that the disposal of 20% interest in Xi'an Lijun by Rejoy Group to the Company is not prohibited under the aforesaid provision in the "Provisional Regulation on Transfer of State-owned Property Rights to the Management" (企業國有產權向管理層轉讓暫行規定).

In the view of the PRC legal adviser to the Company, in the event that the Proposed Transaction takes place after the Listing, Rejoy Group must first obtain approvals from the State-owned Assets Supervision and Administration Commission and the Bureau of Commerce of Shaanxi Province. In addition, the Company will also need to comply with the procedures and the requirements set out in the "Provisional Regulation on Transfer of State-owned Property Rights to the Management" (企業國有產權向管理層轉讓暫行規定), the "Notification of Regulating Opinion on State-owned Enterprise Reform Works" (關於規範國有企業改制工作意見的通知) and the "Provisional Rules on Transfer of State-owned Property Rights" (企業國有產權轉讓管理暫行辦法). The Directors confirm that the Company and the Directors do not envisage any difficulty in complying with these requirements should the Proposed Transaction take place after the Listing.

The PRC legal adviser to the Company has also advised that the approvals required under the relevant PRC laws and regulations for completion of the Proposed Transaction are the same types of approvals as those obtained by Rejoy Group for the disposal of its 28.51% interest in Xi'an Lijun to Victory Rainbow pursuant to the Transfer Agreement. In other words, there is no difference in the types of approvals that are necessary to be obtained by Rejoy Group for the Proposed Transaction prior to or after the Listing.

The PRC legal adviser to the Company has confirmed that the "Provisional Rules on Sale of State-owned Shares for Raising Social Security Fund" (減持國有股籌集社會保障資金管理暫行辦法) promulgated on 12 June 2001 would not be applicable to the Proposed Transaction as the reduction of state-owned shares (減持國有股) set out in that provision governs disposal of state-owned shares in companies that are listed or proposed to be listed to the public.

On 21 October 2004, Xi'an Lijun obtained the approval from Bureau of Commerce of Shaanxi Province (陝西省商務廳) to convert into a sino-foreign equity joint venture enterprise.

In December 2004, the Group disposed of its entire 30% equity interest in Xi'an Rejoy Real Estate Co., Ltd. (西安利君置業有限責任公司) ("Rejoy Real Estate") to Rejoy Technology at a consideration of RMB2.4 million so that the Group would focus on and devote all its resources to pharmaceutical business. The consideration of RMB2.4 million, which was equal to the original investment cost at which Xi'an Lijun acquired Rejoy Real Estate, was arrived at after arms' length negotiation between the two parties and taking into account the unaudited net tangible assets value of Rejoy Real Estate of approximately RMB7.1 million as at 31 December 2003. The 30% net asset value of Rejoy Real Estate as at 31 December 2003 was approximately RMB2.1 million. Rejoy Real Estate has been principally engaged in property development in the PRC. The Directors confirm that at the time when Xi'an Lijun invested in Rejoy Real Estate, the directors of Xi'an Lijun were of the view that there was business prospects and potential growth in the property market in Xi'an, the PRC and accordingly decided to invest in and held a 30% equity interest in Rejoy Real Estate.

The Company was incorporated in the Cayman Islands as an exempted company on 28 September 2004 and, in preparation for the Listing, the Group underwent the Reorganisation. Please refer to the paragraph headed "Corporate reorganisation" in the section headed "Further information about the Company and its Subsidiaries" in Appendix V to this prospectus for details of the Reorganisation.

On 28 December 2004, the Company entered into agreements with Rejoy Technology, Xi'an Sanjiang, Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang respectively pursuant to which the Company acquired an aggregate of approximately 51.49% of the equity interest in Xi'an Lijun for a total consideration of RMB152,040,000 which was satisfied in cash. On 28 December 2004, the Company also entered into an agreement with Victory Rainbow, pursuant to which the Company acquired from Victory Rainbow approximately a 28.51% equity interest in Xi'an Lijun, in consideration of which the Company allotted and issued 3,564 Shares, credited as fully paid, to Victory Rainbow. Upon the completion of the said transfers, Xi'an Lijun was owned as to 80% by the Company and 20% by Rejoy Group. Immediately following the aforementioned steps under the Reorganisation, the Company was owned as to approximately 59.04% by Prime United Industries Limited, approximately 35.64% by Victory Rainbow, approximately 1.78% by Triuniverse Group Limited, approximately 1.19% by Fame World Investments Limited, approximately 1.78% by Flying Success Investments Limited and approximately 0.57% by Bondwide Trading Limited.

Following the abovementioned modification to the Reorganisation, on 13 January 2005, Victory Rainbow entered into a sale and purchase agreement with Success Manage, pursuant to which Victory Rainbow agreed to sell 1,064 Shares (the "Success Manage Shares"), representing 10.64% of the issued share capital of the Company, to Success Manage for a consideration of approximately HK$35.5 million. As the Company holds 80% equity interest in Xi'an Lijun by then, Success Manage's attributable interest in Xi'an Lijun is approximately 8.51%. Based on the calculation that 28.51% equity interest in Xi'an Lijun were valued at approximately RMB126.27 million under the Transfer Agreement, the consideration for 8.51% equity interest in Xi'an Lijun was valued at approximately HK$35.5 million. The abovementioned consideration was to be settled in following manners:

(a) 10% of the consideration shall be paid in Hong Kong on or before 30 April 2005 (this instalment has been settled as at Latest Practicable Date);

(b) 40% of the consideration shall be paid in Hong Kong on or before 31 July 2005; Success Manage shall on or before 31 July 2005 pay interest on the said 40% of the consideration accrued from 1 May 2005 at the best lending rate set by the Hongkong and Shanghai Banking Corporation Limited for loans made in Hong Kong and calculated on the basis of actual number of days elapsed and a 365-day year (this instalment has been settled as at Latest Practicable Date); and

(c) 50% of the consideration shall be paid in Hong Kong on or before 31 December 2005; Success Manage shall on or before 31 December 2005 pay interest on the said sum of 50% of the consideration on the same basis as stated in paragraph (b) above.

The aforesaid sale and purchase agreement was signed on 13 January 2005 and Success Manage was registered as a member of the Company on 13 January 2005. As advised by the Company's legal adviser as to Cayman Islands Law, the Success Manage Shares are freely transferable by Success Manage as registered holder in accordance with the Articles notwithstanding that the Consideration is paid by installments and there is an installment payment outstanding for the Success Manage Shares.

The shareholders of Success Manage comprise of members of management of Xi'an Lijun. Immediately after completion of the transfer of the Success Manage Shares from Victory Rainbow to Success Manage, the Company was owned as to approximately 59.04% by Prime United Industries Limited, approximately 25.0% by Victory Rainbow, approximately 10.64% by Success Manage, approximately 1.78% by Triuniverse Group Limited, approximately 1.19% by Fame World Investments Limited, approximately 1.78% by Flying Success Investments Limited and approximately 0.57% by Bondwide Trading Limited.

The PRC legal adviser to the Company has confirmed that (i) the transfer of 28.51% equity interest in Xi'an Lijun from Rejoy Group to Victory Rainbow (the "Transfer") was governed by PRC laws, that the Transfer was legal and was properly completed and that all the relevant approvals, including shareholders and governmental approvals in relation to transfer of state-owned assets, have been obtained; (ii) the transfer of 28.51% equity interest in Xi'an Lijun from Victory Rainbow to the Company (which is part of the transfer of 80% equity interest in Xi'an Lijun to the Company on 28 December 2004) was governed by PRC laws, and approval from the Bureau of Commerce of Shaanxi Province was obtained on 30 September 2004; (iii) the transfer of 10.64% interest in the Company from Victory Rainbow to Success Manage (the "Subsequent Transfer") was governed by foreign laws; (iv) since the Company holds 80% interest in Xi'an Lijun, and Success Manage holds 10.64% interest in the Company, the management of Xi'an Lijun through Success Manage holds an 8.51% attributable interest in Xi'an Lijun; and (v) approval has been obtained from the relevant PRC government authority regarding the management of Xi'an Lijun holding 8.51% attributable interest in Xi'an Lijun.

The PRC legal adviser to the Company has also advised that all necessary approvals have been obtained and all appropriate legal procedures have been complied with for the aforementioned indirect transfer of 8.51% attributable interest of Xi'an Lijun to Xi'an Lijun management, and such transfer has complied with all the relevant PRC laws and regulations and is legal and effective. The Transfer and the Subsequent Transfer have also complied with the rules on management buy-out under the "Notification of Regulating Opinion on the State-owned Enterprise Reform Works" (關於規範國有企業改制工作意見的通知) issued by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) (the "Notice"), and all appropriate approvals under the Notice have been obtained.

The PRC legal adviser to the Company has further advised that "Provisional Regulations on Transfer of State-owned Property Rights to Management" (企業國有產權向管理層轉讓暫行規定) (the "Provisional Regulations") are only applicable to those transfers of state-owned assets not yet completed before the Provisional Regulations is issued and/or any transfer of state-owned assets after the Provisional Regulations is issued. In this connection, the PRC legal adviser considered that the Provisional Regulations are not applicable in relation to the Transfer and the Subsequent Transfer as both transfers had taken place before 11 April 2005 and had completed all required and necessary procedures as well as obtained all relevant government approvals before 11 April 2005.

The PRC legal adviser of the Company has also confirmed that the Reorganisation is in compliance with the relevant PRC laws and regulations. All required documents according to the "Notification on the Registration of Overseas Investments of Domestic Residents and the Registration of Foreign Exchange in Foreign Funded Merger and Acquisition" (關於境內居民個人境外投資登記及外資併購外滙登記有關問題的通知) issued by State Administration of Foreign Exchange of the PRC (國家外滙管理局) on 8 April 2005 have been duly filed. As all the required filings have been completed, the PRC legal adviser of the Company has confirmed that all the required compliance measures have been under-taken in respect of the "Notification on the Foreign Exchange Administration of domestic residents financing abroad and investing back home through special Purpose Companies abroad" (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by the State Administration of Foreign Exchange of the PRC (國家外匯管理局) on 21 October 2005 which came into effect on 1 November 2005.

Relationships among the Controlling Shareholders

Immediately prior to the establishment of Xi'an Lijun, Rejoy Technology, Shenzhen Jinhuo, Xi'an Combel, Chongqing Bei'en, Agricultural and Electric Administration Bureau and Liaoning Huabang (the "Initial Allied Shareholders") executed a memorandum entitled "Memorandum as to the Nomination of Directors in Xi'an Lijun" (關於推薦利君製藥股份公司董事人選備忘錄) on 18 October 1999 (the "Shareholders' Memorandum"), pursuant to which the Initial Allied Shareholders agreed, inter alia, that (i) the Initial Allied Shareholders and Rejoy Group would nominate a total of six directors and five directors respectively to the board of directors of Xi'an Lijun; (ii) following the establishment of Xi'an Lijun, for any resolutions to be considered at any meeting of Xi'an Lijun's shareholders, directors or supervisors, the Initial Allied Shareholders would liaise with each other first so that a consensus can be reached and all the Initial Allied Shareholders shall vote in the same way at the relevant meeting; and in the event that a consensus cannot be reached, all the other Initial Allied Shareholders shall vote in the same way as Rejoy Technology; (iii) Rejoy Technology would represent all the other Initial Allied Shareholders in dealing with Rejoy Group over the shareholders' rights and entitlements in Xi'an Lijun and (iv) in the event of any transfer in the equity interests in Xi'an Lijun, the new shareholders must also comply with all the terms of the Shareholders' Memorandum.

The PRC legal adviser to the Company confirmed that the Shareholders' Memorandum did not violate any applicable PRC rules and regulations and was legally effective under PRC laws and regulations.

The Directors confirmed that, for the purpose of satisfying the statutory requirement of having at least 5 promoters for the establishment of Xi'an Lijun as a joint stock company, Rejoy Technology found the Initial Allied Shareholders (except Rejoy Technology) who agreed to become shareholders of Xi'an Lijun. To protect the interests of the Initial Allied Shareholders (and the Final Allied Shareholders as defined hereinafter) in Xi'an Lijun, the Initial Allied Shareholders voluntarily agreed to act in concert by signing the Shareholders' Memorandum (and the Final Allied Shareholders agreed to comply with the terms of the Shareholders' Memorandum). Based on the arrangement amongst the Initial Allied Shareholders (and the Final Allied Shareholders), and the fact that Rejoy Technology was more familiar with the operation of Xi'an Lijun, the Initial Allied Shareholders (and the Final Allied Shareholders) (except Rejoy Technology) voluntarily agreed to follow the voting preference of Rejoy Technology in the case where a consensus could not be reached between Rejoy Technology and the Initial Allied Shareholders (and the Final Allied Shareholders) (except Rejoy Technology), so as to ensure that they would all act in concert.

Save as set out in the following, there was no direct relationship between Rejoy Technology and other Initial Allied Shareholders (and Final Allied Shareholders) (except Rejoy Technology) and their respective beneficial shareholders:

(a) Mr. Li Peirong, one of the ultimate beneficial shareholders of Xi'an Combel, holds approximately 0.00676% in Rejoy Technology;

(b) Mr. Li Pai, one of the ultimate beneficial shareholders of Xi'an Combel, holds approximately 0.40541% in Rejoy Technology;

(c) Mr. Zhao Lisheng, one of the ultimate beneficial shareholders of Shenzhen Jinhuo and Liaoning Huabang, holds approximately 0.37838% in Rejoy Technology;

(d) Ms. Chan Lok San, one of the ultimate beneficial shareholders of Shenzhen Jinhuo and Liaoning Huabang, holds approximately 0.01351% in Rejoy Technology; and

(e) Mr. Han Zhichao, one of the ultimate beneficial shareholders of Liaoning Huabang, holds approximately 0.00676% in Rejoy Technology.

During the period between the establishment of Xi'an Lijun in 1999 and the commencement of the Track Record Period on 1 January 2002, there was no change in the interests of the Initial Allied Shareholders in Xi'an Lijun. The shareholders of Xi'an Lijun at the commencement of the Track Record Period were Rejoy Group and the Initial Allied Shareholders, with the Initial Allied Shareholders holding approximately 51.49% of the registered capital of Xi'an Lijun at the establishment of Xi'an Lijun in 1999 and at the commencement of the Track Record Period.

The equity interests of Rejoy Technology (which held 47.23% equity interests in Xi'an Lijun and the shareholding structure of which is replicated in Prime United Industries Limited), Xi'an Combel (which held 0.95% equity interests in Xi'an Lijun and the shareholding structure of which is replicated in Fame World Investments Limited) and Liaoning Huabang (which held 0.47% equity interests in Xi'an Lijun and the shareholding structure of which is replicated in Bondwide Trading Limited) in Xi'an Lijun remained unchanged from the commencement of the Track Record Period on 1 January 2002 to 28 December 2004. Furthermore, the equity interests of Xi'an Sanjiang (which became 1.42% interested in Xi'an Lijun since 24 February 2003 and the shareholding structure of which is replicated in Triuniverse Group Limited) and Shenzhen Jinhuo (which became 1.42% interested in Xi'an Lijun since 8 April 2003 and the shareholding structure of which is replicated in Flying Success Investments Limited) in Xi'an Lijun remained unchanged respectively from 24 February 2003 and 8 April 2003 to 28 December 2004. Accordingly, the equity interests of Rejoy Technology, Xi'an Combel, Liaoning Huabang, Xi'an Sanjiang, and Shenzhen Jinhuo (the "Final Allied Shareholders"), which in aggregate held approximately 51.49% of the registered capital of Xi'an Lijun, remained unchanged from 8 April 2003 to 28 December 2004. Following the transfer of an aggregate of 80% interests in Xi'an Lijun to the Company on 28 December 2004, there has been no change in the attributable interests held in Xi'an Lijun.

On the bases that (i) most of the beneficial owners of Prime United Industries Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited had held interests in Xi'an Lijun throughout the Track Record Period and all of them had maintained interests (which in aggregate add up to 51.49% equity interests) in Xi'an Lijun in year 2004 up to the Reorganisation on 28 December 2004 and (ii) that each of the Final Allied Shareholders (which were all shareholders of Xi'an Lijun as at 28 December 2004 prior to the transfer of interests to the Company, and the shareholding structures of which are replicated in Prime United Industries Limited, Fame World Investments Limited, Bondwide Trading Limited, Triuniverse Group Limited and Flying Success Investments Limited respectively) has all complied with the terms of the Shareholders' Memorandum during the time when they were shareholders of Xi'an Lijun (including having collectively voted in the same way in all the shareholders' meetings of Xi'an Lijun throughout the Track Record Period and that they have acted in concert throughout such period), Prime United Industries Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited are to be considered collectively as the Controlling Shareholders of the Company.

The Controlling Shareholders have also agreed and confirmed, inter alia, that they had acted in concert since they became Shareholders on 28 December 2004 and that subject to them remaining to be Shareholder(s) and the requirements under the Articles, the Listing Rules and the laws of the Cayman Islands and Hong Kong, in respect of their voting in future shareholders' meetings of the Company they would liaise with each other to reach consensus and that in the event that a consensus cannot be reached, all the Controlling Shareholders shall vote in the same way as Prime United Industries Limited.

The Directors confirm that the main reason for the beneficial owners of the Final Allied Shareholders (including Rejoy Technology, Xi'an Combel, Liaoning Huabang, Shenzhen Jinhuo and Xi'an Sanjiang) holding the Shares through the Controlling Shareholders (including Prime United Industries Limited, Fame World Investments Limited, Bondwide Trading Limited, Flying Success Investments Limited and Triuniverse Group Limited) was for tax purposes. As advised by the PRC legal adviser to the Company, if the Shares were held directly by the Final Allied Shareholders, which are all PRC incorporated companies, income or gain (including capital gain on disposal of the Shares, dividend income and other distributions) of the Final Allied Shareholders deriving from the Shares would be subject to PRC Enterprise Income Tax. However, such gain or income of the Controlling Shareholders will not be subject to any taxation in the BVI as under the current BVI law, no taxes levied under the Income Tax Act of BVI are imposed in the BVI upon an international business company (as is each of the Controlling Shareholders) upon its shareholders resident outside of BVI.

Business development

The business of the Group originated from the injection of the assets (mainly including the assets for operation and manufacture of pharmaceuticals) of Shaanxi Xi'an Pharmaceutical Factory by Rejoy Group as part of the registered share capital of Xi'an Lijun Pharmaceutical Stock Co., Ltd. in late 1999.

Shaanxi Xi'an Pharmaceutical Factory was first established in late 1930s in Shaanxi Province, the PRC, to engage in the production of pharmaceutical products in the PRC. From late 1930s to early 1990s, Shaanxi Xi'an Pharmaceutical Factory had successfully developed, manufactured and distributed a wide variety of pharmaceutical products. Over the decades, Shaanxi Xi'an Pharmaceutical Factory had developed itself as one of the largest pharmaceutical manufacturers in the PRC.

Since the GMP came into effect in August 1999, the Group has upgraded its production facilities and has obtained all GMP certifications required under PRC laws and regulations for the commencement and continuation of the production of their products, details of which are set out in the paragraphs headed "Production" in this section.

In March 1997, the Group obtained an import and export qualification from the then Bureau of Foreign Trade and Economic Cooperation of Shaanxi Province which allows the Group to export its bulk pharmaceuticals to overseas countries such as America, Europe and India.

In anticipation of the positive business prospects of the Chinese medicines and leveraging on its experience in the pharmaceutical industry, the Group expanded into Chinese medicine business through taking a 51% equity interest in Heng Xin Tang, a manufacturer of Chinese medicines in the PRC, in July 2003. Xi'an Lijun decided to acquire Heng Xin Tang having the following factors taken into account: (i) Heng Xin Tang had possessed a wide range of products for which it had obtained production approval for the production of more than 90 Chinese medicines; (ii) additional investment cost and capital commitment was not significant as Heng Xin Tang had already possessed necessary production facilities, though certain restructurings were required in order to comply with GMP requirements; and (iii) the goodwill and/or premium paid as consideration in relation to the acquisition was not significant as Heng Xin Tang had incurred losses for several years preceding to the acquisition by the Group.

Before the acquisition of Heng Xin Tang, Xi'an Lijun had performed by itself the following due diligence works: (i) understanding the background (including corporate and shareholding structure), products, and history and development of Heng Xin Tang; (ii) physical inspection of the production facilities of Heng Xin Tang; (iii) obtaining the management accounts of Heng Xin Tang to understand its financial position and historical performance; and (iv) performing an in-house study on the market demand and potential of Heng Xin Tang's products. After Xi'an Lijun becoming the shareholder of Heng Xin Tang, it had taken certain steps to integrate Heng Xin Tang's business into the Group's overall business including but not limited to (i) the restructuring of its production facilities in order to comply with the GMP in the PRC; (ii) the restructuring of its management team by appointing a new chairman and various senior management staff in each major departments of Heng Xin Tang; (iii) the formulation of the new overall business strategies and plans such as production plans and sale and marketing strategies; and (iv) the change of its product brand name from "Heng Xin Tang" into "Lijun Heng Xin Tang".

In December 2004, Heng Xin Tang obtained a GMP certificate for the production of tablets, granules, powders and pills and it commenced production of Chinese medicines in January 2005.

In January 2005, Xi'an Lijun was awarded with ISO14001 Certificate for its environmental management system's compliance with the Standards ISO14001: 1996.

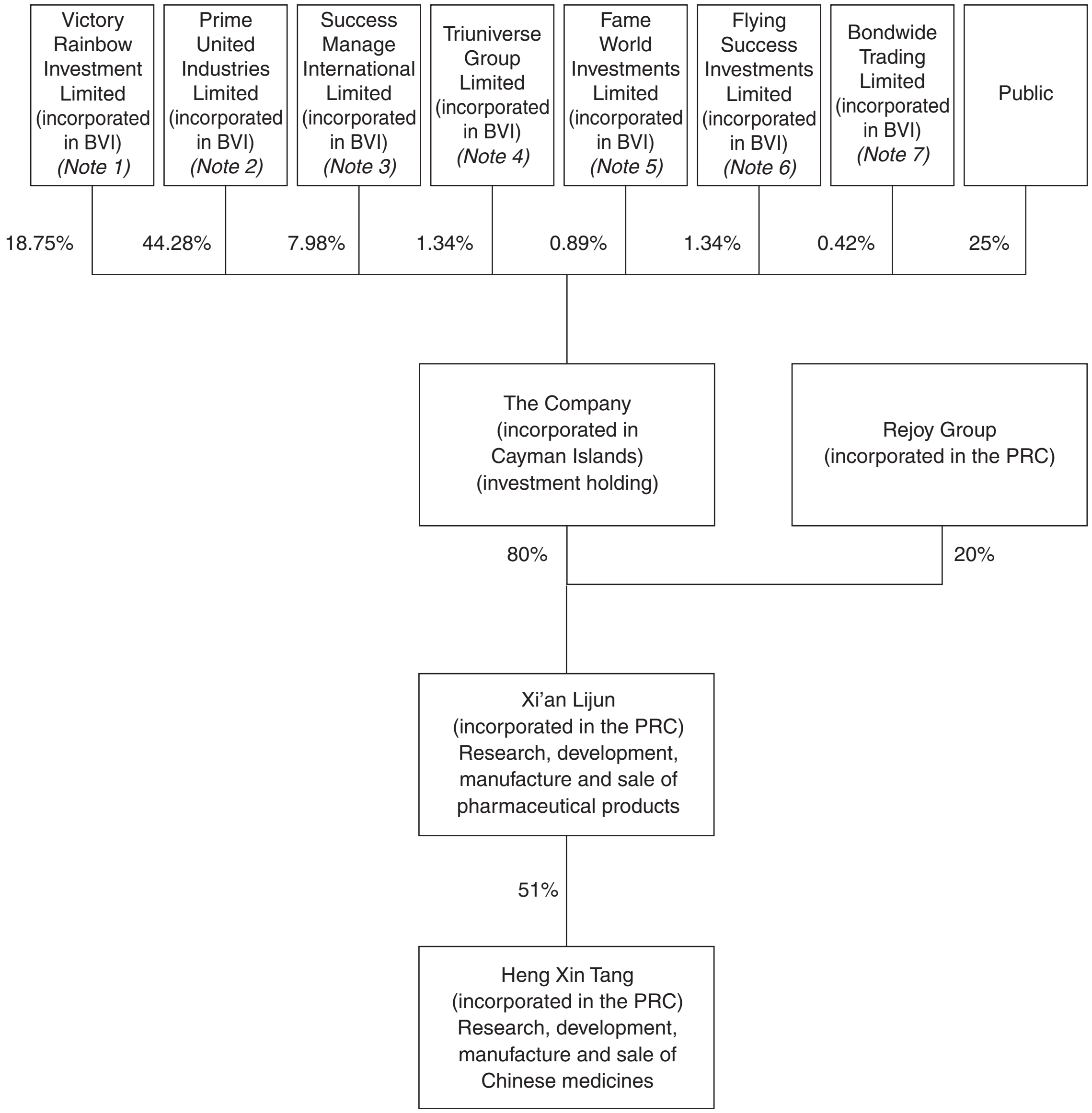
Over the previous years, the Group has received various certificates and awards for its products and in recognition of its product quality and production technology. Please refer to the paragraph headed "Awards and certificates" in the section headed "Business" in this prospectus.

The Group has obtained production approvals for the production of more than 300 pharmaceutical products whereas Hen Xin Tang has obtained production approvals for the production of more than 90 Chinese medicines in the PRC. The Group has 85 and 55 regularly produced pharmaceutical products and Chinese medicines respectively included in the Insurance Catalogue.

The Group has obtained all approvals and permits, including but not limited to the GMP certificates, Pharmaceutical Manufacturing Permits, Hygiene Permits and business licenses from the relevant approval authorities in the PRC, which are required under PRC laws and regulations for the commencement and continuation of the production of its products in the PRC. In addition, the Group had obtained and maintained all necessary permits and licenses for its operations throughout the Track Record Period.

GROUP STRUCTURE

The following chart illustrates the shareholding and corporate structure of the Group and the respective principal activities of members of the Group upon completion of the Capitalisation Issue and Share Offer (assuming that the Over-allotment Option is not exercised and without taking into account the Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme):



Notes:

1. Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia on 1 November 1996 and engaged in the business of shipping, which in turn is owned as to 50% by Ms. Chen Lin-Dong and 50% by Mr. Xu Ming.

2. Prime United Industries Limited is held as to approximately 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 4% by Mr. Xie Yunfeng, an executive Director, as to 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 or former employees or their respective estates (as set out in the next paragraph) of Xi'an Lijun and Rejoy Group. The beneficial ownership structure in Prime United Industries Limited is a replication of the ownership structure of Rejoy Technology.

   Amongst the 4,965 individual shareholders of Rejoy Technology as mentioned above, which represents approximately 84.73% interest in Prime Limited Industries Limited, 85 of them (holding in aggregate RMB1,010,000 in the registered capital of Rejoy Technology, equivalent to approximately 0.68% of the registered capital of Rejoy Technology) passed away during the Track Record Period with their interests having been transmitted to their estates. Save for such transmission of interests, there was no change in the interests of the 4,965 shareholders of Rejoy Technology during the Track Record Period. For the remaining approximately 15.27% interest in Prime United Industries Limited, these was also no change in the interests of the corresponding shareholders of Rejoy Technology during the Track Record Period.

   The main reason for entering into the abovementioned trust arrangement is that as there are 4,965 beneficial owners in Prime United Industries Limited (which is a replication of the shareholding arrangement in Rejoy Technology), it was the concurrent view of these beneficial owners that it would be more convenient (from the administration and management point of view) for their shareholding to be entrusted with the trustees. The PRC legal adviser to the Company have confirmed that such arrangements are valid and legal and are in compliance with the PRC laws and regulations.

   Save as set out above and in the paragraph headed "Corporate restructuring" in this section of this prospectus, there is no other direct relationship between Rejoy Group and Rejoy Technology except that the shareholders of Rejoy Technology are all former or present employees or their respective estates of Rejoy Group and Xi'an Lijun.

3. Success Manage International Limited is owned as to approximately 37.88% by Mr. Wu Qin, an executive Director, approximately 10.03% by Mr. Wu Zhihong, an executive Director, approximately 10.03% by Mr. Huang Chao, an executive Director, approximately 3.06% by Mr. Xie Yunfeng, an executive Director, approximately 3.06% by Ms. Sun Xinglai, an executive Director, approximately 3.06% by Mr. Zhang Yabin, a member of the management of Xi'an Lijun and approximately 32.87% by Mr. Zhang Yabin on trust for 24 individuals, all of whom are part of the management of Xi'an Lijun.

4. Triuniverse Group Limited is owned as to 73.10% by Mr. Yang Genli, 10.75% by Mr. Zhang Yuliang, 5.01% by Mr. Chen Qiang and 11.14% by Ms. Chen Jing, all of whom are beneficial shareholders of Xi'an Sanjiang.

5. Fame World Investments Limited is owned as to 45% by Mr. Li Peirong, 30% by Mr. Li Pai and 25% by Newtronic Pharmaceuticals & Chemicals Limited ("Newtronic") (which is private company incorporated in Hong Kong on 21 May 1991 and is engaged in the business of trading of pharmaceuticals and chemicals), all of whom are beneficial shareholders of Xi'an Combel. Newtronic is held as to 50% by Mr. Shing Ting Chun and 50% by Ms. Cheung Ming Man.

6. Flying Success Investments Limited is owned as to 80% by Mr. Zhao Lisheng and 20% by Ms. Chan Lok San, all of whom are beneficial owners of Shenzhen Jinhuo Co., Ltd..

7. Bondwide Trading Limited is owned as to 92.03% by Mr. Han Zhichao, 6.38% by Mr. Zhao Lisheng, and 1.59% by Ms. Chan Lok San, all of whom are beneficial shareholders of Liaoning Huabang.

PRODUCTS

The Group is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products which can be broadly into finished medicines and bulk pharmaceuticals. In addition, the Group also manufactures and sales Chinese medicines.

Pharmaceutical products

The pharmaceutical products manufactured by the Group can be broadly categorised into finished medicines and bulk pharmaceuticals. As at the Latest Practicable Date, the Group had obtained production approvals for the production of more than 300 pharmaceutical products, of which approximately 110 of them are regularly produced by the Group. Among these regularly produced pharmaceutical products, nine products are bulk pharmaceuticals and the remaining 107 products are finished medicines, of which approximately 15 are OTC medicines and approximately 92 products are prescription medicines. The Group's finished medicines are sold under various major trademarks or brand names such as Lijunsha, Paiqi and Lijun Paitong while the Group's bulk pharmaceuticals are not sold under any particular brand names.

The Group's finished medicines are used in the treatment of various diseases, in particular, microbial infection and cardiovascular disease and are mainly in forms of injections, tablets, capsules and granules. The Group produces a wide variety of pharmaceutical products, it is well-known in manufacturing of antibiotics. Antibiotics manufactured by the Group include mainly macrolides and cepahlosporins, which are applied in the treatment of different microbial infections. Lijunsha (利君沙) is the major antibiotics products of the Group and was awarded "Well-Known Trademark" (馳名商標) in 2002 and "Ten Most Favoured Brands Elected by the Public" (十大公眾最喜愛商標) in the PRC in 2002 and 2003.

Bulk pharmaceuticals produced by the Group are either used by the Group for its production of finished medicines or exported to overseas drugs manufacturers directly or indirectly through export agents in the PRC.

A brief description of the Group's major pharmaceutical products is set out below:

Product	Product name/ Trade name/ Registered trademark	Forms	Principal applications/ major therapeutic effects
A. Finished medicines			
1. Antibiotics			
Erythromycin ethylsuccinate	Lijunsha (利君沙)	– Tablets – Granules – Capsules	Lijunsha is suitable for Gram-positive bacteria and some of the Gram-negative bacteria. It is specially suitable for the allergy of penicillin and cephalosporins and the infections caused by resistant bacteria, which mainly treats: • Tonsillitis, pharyngitis, nasal sinusitis, mycoplasma pneumonia, chlamydia pneumonia, diphtheria, whooping cough; • Oral infections, conjunctivitis, legionnaires' disease, infections of Listeria monocytogenes; • Slight to medium skin and soft tissue infections; • Campylobacter jejunitis, reproduction urinary tract infections and gonorrhea, syphilis, hemorrhoid. Prevention: prevention medicine for relapse of rheumatic fever, infective endocarditis (rheumatic heart disease, congenital heart disease, infective endocarditis caused after heart valve replacement surgery) and oral and upper respiratory tract therapeutic operation.

Product	Product name/ Trade name/ Registered trademark	Forms	Principal applications/ major therapeutic effects
Erythromycin	Erythromycin Enteric-coated Tablets (紅霉素腸溶片)	– Tablets	1. For patients who are allergic to penicillin, this product is a substitute medicine to treat the following infections: Acute tonsillitis, acute pharyngitis, nasosinusitis caused by hemolytic streptococcus and pneumonia streptococcus; scarlet fever, cellulitis caused by haemolytic streptococcus; diphtheria and diphtheria carriers; gas gangrene, anthrax, tetanus; lumpy jaw; syphilis; Listeria monocytogenes. 2. Legionnaires' disease. 3. Mycoplasma pneumonia. 4. Chlamydia pneumonia. 5. Urogential system infections caused by other chlamydia and mycoplasma. 6. Chlamydia trachomatis conjunctivitis. 7. Gonoccocal infections. 8. Oral infections caused by anaerobic bacteria. 9. Campylobacter jejunitis. 10. Whooping cough. 11. Prevention medicine (a substitute medicine for penicillin) for relapse of rheumatic fever, infective endocarditis (rheumatic heart disease, congenital heart disease, infective endocarditis caused after heart valve replacement surgery) and oral and upper respiratory tract therapeutic operation.

Product	Product name/ Trade name/ Registered trademark	Forms	Principal applications/ major therapeutic effects
Clarithromycin	Limaixian (利邁先)	– Tablets – Capsules	This product is suitable for infections caused by atypical pathogens such as Gram-positive, some of the Gram-negative bacteria, anaerobic bacteria, mycoplasma and chlamydia. It treats helicobacter pylori related illness to eradicate the helicobacter pylori. This product is mainly used in treating: • Upper respiratory system infections: tonsillitis, pharyngitis, paranasal sinusitis; • Lower respiratory system infections: bronchitis, bacterial pneumonia. It is specially effective in curing pneumonia caused by atypical pathogens such as legionella pneumonphila and mycoplasma pneumoniae; • Digestive system infections: chronic gastritis, gastric ulcer and duodenal ulcer; • Urogential system infections: nongonococcal urethritis and cervicitis; • Skin infections: impetigo, erysipelas, folliculitis, boil and wound infections; • Other infections: whooping cough and tympanitis.

Product	Product name/ Trade name/ Registered trademark	Forms	Principal applications/ major therapeutic effects
Azithromycin for injection	Paiqi (派奇)	Lyophilized powder for injection	This product is suitable for medium to serious infections caused by atypical pathogens such as Gram-positive, some of the Gram-negative bacteria, anaerobic bacteria, mycoplasma, chlamydia and Legionnaires' disease. It is mainly used in treating: • Upper respiratory system infections: pharyngitis, tonsillitis, tympanitis and paranasal sinusitis; • Lower respiratory system infections: bronchitis and community-acquired pneumonia caused by chlamydia pneumoniae, Hemophilus influenza, legionella pneumonphila, moxaxella catarrhalis, mycoplasma pneumoniae, Staphylococcus aureus or streptococcus pneumoniae, which required to be treated with intravenous drip first; • Urogential system infections: pelvic inflammatory disease caused by Chlamydia trachomatis, Neisseria gonorrhoeae and mycoplasma hominis, which required to be treated with intravenous drip first, vaginitis, cervicitis and prostatitis; • Sexual transmitted diseases: gonorrhea, nongonococcal urethritis and syphilis; • Skin and soft tissue infections.
Cefoperazone sodium	Lijunpaitong (利君派同)	Crystalline powder from solvent refining for injection	This product is suitable for various infections caused by sensitive strain such as pneumonia and other lower respiratory system infections, urinary tract infections, Biliary tract infections, skin and soft tissue infections, septicaemia, peritonitis, pelvic infections, of which the latter two should be treated with Metronidazole jointly.

Product	Product name/ Trade name/ Registered trademark	Forms	Principal applications/ major therapeutic effects
Cefoperazone sodium and sulbactam sodium	Lijunpaishu (利君派舒)	Crystalline powder from solvent refining for injection	This product is suitable for respiratory system infections, urinary tract infections, Biliary tract infections, peritonitis, cholecystitis and other intra-abdominal cavity infections, septicaemia, meningitis, skin and soft tissue infections, bone and joint infections, pelvic inflammatory disease, endometritis, gonorrhea and other reproduction system infections caused by sensitive strain.
2. Others			
Urapidil Hydrochloride	Lixiding (利喜定)	Injection	This product is suitable for symptoms of hypertension (e.g. sudden increase in blood pressure), serious and extremely serious hypertension, and refractory hypertension. It is used to control the hypertension during the surgery period.
		Sustained-release tablets	This product is mainly used essential hypertension, renovascular hypertension and hypertension caused by pheochromocytoma.
Calcium dobesilate	Dobesilate (多貝斯)	Capsules	This product prevents and treats various illness caused by obstruction in the microcirculation. It mainly: • treats retinopathy caused by diabetes; • treats illness of heart, brain and kidney caused by obstruction in microcirculation such as glomerulosclerosis; • reduces the viscosity of blood; • prevents microemboli; • treats the numbness, pain and itchiness of limbs; • syndromes such as varicosity.

Product	Product name/ Trade name/ Registered trademark	Forms	Principal applications/ major therapeutic effects
Compound Liquorice	Compound Glycyrrhiza Tablets (複方甘草片)	Tablets	Expectorant. For the alleviating of cough and short of breath arising from upper respiratory system infections and acute bronchitis etc.
Citicoline Sodium	Citicoline Sodium Injection (胞二磷膽鹹注射液)	Injection	Cozymase. For the treatment of barrier of consciousness arising from acute brain trauma and surgeon.
Tabellae Aminophenazonietphenacetini Compositate	Compound Aminopyrine Tablets (去痛片)	Tablets	For lowering temperature due to fever and pain of mild to moderate degree.
Metamizole Sodium	Metamizole Sodium Tablets (安乃近片)	Tablets	For lowering temperature of fever, as well as for relief of headache, migraine headache, muscle pain, joint pain and menstrual pain etc.
Calcium gluconate	Naiwei Gai (奶維鈣片)	Tablets	This product is a calcium supplement, which is suitable for preventing and treating calcium deficiency such as osteoporosis, agenesis and rickets. It can also be used as a calcium supplement for women during their gestation, lactation and menopause.
B. Bulk pharmaceuticals			
1. Erythromycin thiocyanate	–	Powder	for manufacturing of antibiotics
2. Erythromycin ethylsuccinate	–	Powder	for manufacturing of antibiotics
3. Erythromycin	–	Powder	for manufacturing of antibiotics
4. Tetracycline hydrochloride	–	Powder	for manufacturing of antibiotics

Chinese medicines

Since the acquisition of Heng Xin Tang, the Group has diversified its business to the production of Chinese medicines. As at the Latest Practicable Date, Heng Xin Tang had obtained the production approvals for the production of more than 90 Chinese medicines, of which approximately 80 are regularly produced by Heng Xin Tang. The Group's Chinese medicines are sold under the brand names of Lijun or Heng Xin Tang.

Brief descriptions of the Group's major Chinese medicines are set out below:

Product Name/Registered Trademark	Forms	Principal applications/ major therapeutic effects
Shayuanzi Keli (沙苑子顆粒)	Granules	Nourishing liver and kidney, this product not only fortifies sperm and reduces urination, but also treats eye diseases. It is suitable for kidney deficient, spermatorrhea, premature ejaculation, leukorrhagia, frequent urination and vertigo.
Miaoji Wan (妙濟丸)	Large honeyed pills	This product strengthens joints and muscles and expels dampness. It removes obstruction in collateral channels, accelerates blood circulation and relieves pains. It is suitable for numbness and contracture of limbs, aches in joints and aching and soft waist and knees.
Liuwei Dihuang Wan (六味地黃丸)	Pills	Nourishing the vital essence by tonifying the kidney, this product is suitable for waning of the kidney, dizziness, aching and soft waist and knees, wetness and heat due to deficiency, night sweat and spermatorrhea.
Baidai Wan (白帶丸)	Pills	For wet heat, heavy vaginal discharge and for increase of multicolored vaginal discharge arising from wet heat.
Huanglian Shangqing Wan (黃連上清丸)	Pills	For heat evils and constipation, rheumatism, as well as for dizziness, red and swollen gum, oral ulcer, red and swollen throat, red eye, dry faeces and dark yellow urine arising from internal heat.

Insurance Catalogue

Among the Group's regularly produced products, 85 of pharmaceutical products and 55 of Chinese medicines are included in the Insurance Catalogue or in the Insurance Catalogue that can be adjusted and implemented by provincial authorities or municipalities in the PRC. Those medicines listed in the Insurance Catalogue or in the Insurance Catalogue that can be adjusted and implemented by provincial authorities or municipalities in the PRC are eligible for reimbursement from the social medical fund claimed by patients under the prevailing government medical insurance system. Therefore, these medicines are expected to be more popular in the general public. Also, these products are subject to price control which specifies the ceiling retail prices. For further details of such price control, please refer to the paragraph headed "Pricing policy" in the section headed "Industry overview" in this prospectus.

New products to be launched

Below is a summary of brief details of the major products which have obtained production licenses as at the Latest Practicable Date and will be launched in the market:

Product	Form	Principal applications/ major therapeutic effects
A. Finished medicines:		
Clindamycin Phosphate Injection (克林霉素磷酸酯注射液)	Injection	1. This product is suitable for various infections caused by Gram-positive bacteria, such as: (1) tonsillitis, suppurative tympanitis and paranasal sinusitis; (2) acute bronchitis, exacerbation of chronic bronchitis, cross infection of pneumonia, pulmonary abscess and bronchiectasis; (3) skin and soft tissue infections: pimple, carbuncle, abscess, cellulitis, trauma and postoperative infection; (4) urinary system infection: acute urethritis, acute renal pelvis nephritis and prostatitis; and (5) osteomyelitis, septicemia, peritonitis and oral infection. 2. This product is suitable for various contagious diseases caused by anaerobic bacteria, such as: (1) empyema, lung abscess and pulmonary infection caused by anaerobic bacteria; (2) skin and soft tissue infection, septicemia; (3) abdominal cavity infection: peritonitis and abdominal cavity abscess; and (4) female pelvic infection and reproductive organs infection: endometritis, non-gonococcus tubo-ovarian abscess, pelvic cellulitis and female postoperative infection.
Azithromycin Dispersible Tablets (阿齊霉素分散片)	Dispersible tablets	1. Acute pharyngitis and acute tonsillitis caused by streptococcus pyogenes. 2. Nasal sinusitis, acute tympanitis, acute bronchitis and Chronic bronchitis with acute exacerbation caused by sensitive bacteria. 3. Pneumonia caused by streptococcus pneumoniae, Haemophilus influenza and mycoplasma pneumonia. 4. Urethritis and cervicitis caused by chlamydia trachomatis and non multi-drug resistant Neisseria gonorrhoeae. 5. Skin and soft tissue infections caused by sensitive drug.

Product	Form	Principal applications/ major therapeutic effects
Dirithromycin Enteric-coated Tablets (地紅霉素腸溶片)	Enteric-coated tablets	Suitable for patients aged 12 or above, indicated for treatment of slight to medium infections caused by the following sensitive bacteria: Chronic bronchitis with acute exacerbation caused by Haemophilus influenzae, moxaxella catarrhalis and streptococcus pneumoniae. Acute bronchitis caused by moxaxella catarrhalis and streptococcus pneumoniae. Community-acquired pneumonia caused by legionella pneumonphila, mycoplasma pneumonia and streptococcus pneumoniae. Penumonia and tonsillitis caused by streptococcus pyogenes. Simplex skin and soft tissue infections caused by staphylococcus aureus (methicillin sensitive strain) and streptococcus pyogenes.
Compound Glycyrrhizin Injection (複方甘草酸苷注射液)	Injection	Treatment of chronic liver diseases and improve liver dysfunction. For treatment of eczema, dermatitis and urticaria.
B. Chinese medicines		
Yang Xue An Shen Suger Syrup (養血安神糖漿)	Sugar Syrup	Haematinic and sedative. Suitable or treatment of insomnia and dreaming, palpitations and giddiness.
C. Health care products		
Ai Xin Oral Solution (愛心口服液)	Oral solution	Anti-radiation and immune regulation.
Ling Zhi Hong Oral Solution (靈芝紅口服液)	Oral solution	Complementary protective function for chemical liver injury and help lowering the blood lipid.

AWARDS AND CERTIFICATES

The table below sets out the certificates and awards received by the Group:

Certificate/Recognition	Date of issued or awarded	Granting authority(ies)
Satisfactory Unit in Quality and Service (商品質量服務雙滿意單位)	October 2000	Xi'an Consumers' Association (西安市消費者協會)
The Outstanding New and Hi-Tech Enterprise for the "Nineth Ten" of Xi'an (西安市「九五」優秀高新技術企業)	August 2001	Xi'an Science and Technology Commission (西安市科技委員會)

Certificate/Recognition	Date of issued or awarded	Granting authority(ies)
Demonstration Unit of Constructing Information and Culture of Shaanxi Province (陝西省企業信息化建設示範單位)	October 2001	The Economic and Trade Committee of Shaanxi Province (陝西省經貿委) The Enterprise Informationalisation Work Guiding Committee of Shaanxi Province (陝西省企業信息化工作領導小組)
Demonstration Unit of Corporate Management (企業管理示範單位)	January 2002	Shaanxi Provincial Government (陝西省人民政府)
"Model Taxpayer" 2001 (2001年度「模範納税戶」)	April 2002	Xi'an State Tax Bureau (西安市國家税務局)
National "May 1st" Labor Medal (全國「五一」勞動獎狀)	April 2002	All-China Federation of Trade Unions (中華全國總工會)
Advanced Unit in Credit Tax Payment (誠信納税先進單位)	April 2002	Xi'an District Tax Bureau (西安市地方税務局)
Advanced Patent Work Unit of Shaanxi Province (陝西省專利工作先進單位)	October 2002	Intellectual Property Office of Shaanxi Province (陝西省知識產權局) Personnel Bureau of Shaanxi Province (陝西省人事廳)
Postdoctoral Research Station (博士後科研工作站)	December 2002	The Ministry of Personnel, the PRC (中華人民共和國人事部)
High & New Technology Enterprise (高新技術企業)	2002	Science & Technology Department of Shaanxi Province (陝西省科學技術廳)

Certificate/Recognition	Date of issued or awarded	Granting authority(ies)
Member of the Trademark Administration and Protection Unit of the 14 Provinces and Cities in the West and The Managing Unit for the Brandnames Establishment and Rights Protection Network of Xi'an (西部十四省市行政保護商標成員單位及西安市商標創牌維權協作網理事單位)	December 2002	Bureau of Industry and Commerce of Xi'an (西安市工商行政管理局)
PRC 500 Informationalised Enterprises (中國企業信息化500強)	2004	State Informationalisation Assessment Centre (國家信息化測評中心)
The Trademark of "Lijun" was recognised as the famous trademark of Xi'an (「利君」商標認定為西安市著名商標)	August 2003	Bureau of Industry and Commerce of Xi'an (西安市工商行政管理局)
Model Taxpayer 2002 (2002年度模範納稅戶)	March 2003	Second Branch Office of Xi'an District Tax Bureau (西安市地方稅務局第二分局)
Company of Contract-abiding-by and Promise-keeping 2004 (2004年度守合同重信用)	August 2005	Xi'an Municipal Government (西安市人民政府)
The Advanced Enterprise of Resources Conservation and Integrated Consumption of Shaanxi Province (陝西省資源節約與綜合利用先進企業)	September 2003	Economic and Trade Commission of Shaanxi Province (陝西省經濟貿易委員會)
The 2003 Advanced Unit in Brandname Establishment and Rights Protection (2003年度創牌維權先進單位)	December 2003	Bureau of Industry and Commerce of Xi'an (西安市工商行政管理局) Office of Brandname Establishment and Rights Protection of Xi'an (西安市創牌維權協作網辦公室)

Certificate/Recognition	Date of issued or awarded	Granting authority(ies)
National Advanced Famous Products and After-sales Service Unit (全國名優產品售後服務先進單位)	December 2003	State Recognised Guiding Committee of Commerce Organisation of the PRC (中國商業聯合會國家認證認可監督委員會)
Provincial Satisfactory Unit in Quality and Service (2003年度優秀會員單位)	February 2004	Association of Enterprise Creditability of Shaanxi Province (陝西省企業信用協會)
Commercial Service Creditable to Consumers (誠信單位)	2004	Consumers' Association of Shaanxi Province (陝西省消費者協會)
Advanced Unit in Credibility 2002-2003 (2002-2003誠信先進單位)	May 2004	Association of Industry and Commerce of Shaanxi Province (陝西省工商聯會)
The Green Enterprise (綠色企業)	June 2004	Shaanxi Provincial Government (陝西省人民政府)
The Taxpayer with A Grade Credibility (納税信用A級納税人)	April 2004	Xi'an State Tax Bureau/District Tax Bureau (西安市國税局、地税局)
The State Recognised Enterprise Technology Centre (國家認定企業技術中心)	2004	National Development and Reform Commission, Ministry of Finance, General Administration of Customs, State Administration of Taxation (國家發展改革委員會、財政部、海關總署、國家税務總局)
2004 Top Ten Manufactories in the Chemical Drug Preparation Manufacturing (No. 5) (2004年度化學藥品製劑製造行業效益十佳(第五名))	September 2005	Department of Industry and Communications, National Bureau of Statistics (國家統計局工業交通司) China Industry and Enterprise Information Centre (中國行業企業訊息發佈中心)

The table below sets out the certificates and awards received by the Group in respect of its products:

Product	Certificate/ Recognition	Date of issued or awarded	Granting authority(ies)
Erythromycin Ethylsuccinate (Lijunisha)	• Famous Brand Products of Shaanxi Province (陝西省名牌產品)	• April 2004	• Shaanxi Provincial Government (陝西省人民政府)
	• Well-known Trademark (馳名商標)	• February 2002	• Bureau of Trademark under State Bureau of Industry and Commerce (國家工商行政管理總局商標局)
	• Ten Most Favored Brands Elected by the Public (中國十大公眾喜愛商標)	• April 2002 & April 2003	• Organisation Committee of Trademark Competition in the PRC (中國商標大賽組織委員會)
	• The Famous Trademark of the Shaanxi Province, (陝西省著名商標)	• September 2003	• Bureau of Industry and Commerce of Shaanxi Province (陝西省工商行政管理總局)
	• The Satisfactory Unit "All for the Consumers" and the Favourite Brand for the Lijunsha Buyers （授予「一切為了消費者」滿意單位、利君沙消費者喜愛品牌）	• August 2001	• Bureau of Industry and Commerce of Shaanxi Province （陝西省工商行政管理局）
Erythromycin Ethylsuccinate Tablets (Lijunisha tablet)	• State Key New Product (國家重點新產品證書)	• June 2000 (expired in 2003)	• granted jointly by several PRC governmental authorities *(Note 1)*
	• Advanced New Technology Product certificate (高新技術產品認定證書)	• March 2005	• Science and Technology Commission of Shaanxi Province (陝西省科學技術廳)
Erythromycin	• The Famous Brand Product of Xi'an City (西安名牌產品)	• December 1999	• Xi'an Municipal Government (西安市人民政府)
	• Advanced New Technology Product certificate (高新技術產品認定證書)	• March 2005	• Science and Technology Commission of Shaanxi Province (陝西省科學技術廳)
Clarithromycin	• The Technological Advancement Award, Second Honour (科技進步二等獎)	• February 1999	• SDA (國家藥品監督管理局)

Product	Certificate/ Recognition	Date of issued or awarded	Granting authority(ies)
Clarithromycin (bulk drugs and tablets)	• State Key New Products (國家重點新產品證書)	• November 1998 (expired in 2001)	• granted jointly by several PRC governmental authorities *(Note 1)*
Limaixian	• The Famous Trademark of Xi'an, 2004-2007 (2004至2007西安市著名商標)	• 2004	• Bureau of Industry and Commerce of Xi'an (西安市工商行政管理總局)
	• Advanced New Technology Product certificate(高新技術產品認定證書)	• March 2005	• Science and Technology Commission of Shaanxi Province (陝西省科學技術廳)
	• Famous Brand Products of Shaanxi Province (陝西省名牌產品)	• 2004	• Shaanxi Provincial Government (陝西省人民政府)
Sodium D-isoascobate	• Advanced New Technology Product certificate (高新技術產品認定證書)	• March 2005	• Science and Technology Commission of Shaanxi Province (陝西省科學技術廳)
Azithromycin for injection	• Advanced New Technology Product certificate (高新技術產品認定證書)	• March 2005	• Science and Technology Commission of Shaanxi Province (陝西省科學技術廳)
	• State Key New Product Certificate (國家重點新產品證書)	• December 2001 (expired in 2004)	• granted jointly by several PRC governmental authorities *(Note 2)*
	• The Certificate of the Scientific and Technological Award, Shaanxi Province (陝西省科學技術獎證)	• March 2003	• Shaanxi Provincial Government (陝西省人民政府)
Calcium Dobesliate	• State Key New Product Certificate (國家重點新產品證書)	• April 2003	• granted jointly by several PRC governmental authorities *(Note 3)*
Urapidil Hcl	• State Key New Product Certificate (國家重點新產品證書)	• December 2001 (expired in 2004)	• granted jointly by several PRC governmental authorities *(Note 2)*
	• State Torch Plan Project (國家級火炬計劃項目證書)	• September 2001	• Torch High Technology Industry Development Office of the Ministry of Science and Technology (科學技術部火炬高技術產業開發中心)

Note 1: State Key New Product Certificate (國家重點新產品證書) was jointly granted to the Group for its products by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), the State Administration of Taxation (國家稅務總局), the State Administration of Environmental Protection (國家環境保護總局) and the State Bureau of Quality and Technological Supervision (國家質量技術監督局) and is valid for 3 years from the date of issued.

Note 2: State Key New Product Certificate (國家重點新產品證書) was jointly granted to the Group for its products by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), the State Administration of Taxation (國家稅務總局), the State Administration of Environmental Protection (國家環境保護總局) and the State Bureau of Quality Inspection Quarantine (國家質量監督檢驗檢疫總局) and is valid for 3 years from the date of issued.

Note 3: State Key New Product Certificate (國家重點新產品證書) was jointly granted to the Group for its products by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Commerce of the PRC (中華人民共和國商務部), the State Administration of Taxation (國家稅務總局), the State Administration of Environmental Protection (國家環境保護總局) and the State Bureau of Quality Inspection Quarantine (國家質量監督檢驗檢疫總局) and is valid for 3 years from the date of issued.

PRODUCTION

Production facilities

The production facilities of Xi'an Lijun, the principal non wholly-owned subsidiary of the Company, are currently located in Xi'an, Shaanxi Province, the PRC with a total site area approximately 123,939 sq.m.. The production facilities of Heng Xin Tang are located in Weinan, Shaanxi Province, the PRC with a total site area of approximately 53,333 sq.m.. As at the Latest Practicable Date, Xi'an Lijun had seven production lines for the manufacture of pharmaceutical products whereas Heng Xin Tang had one production line for the manufacture of Chinese medicines.

Xi'an Lijun and Heng Xin Tang have obtained the following permits and licences which are required under PRC laws and regulations for the commencement and continuation of the production of their products in the PRC:

License or Permit Obtained by Xi'an Lijun	**Issuing Authority**	**Expiry Date**
Business license （營業許可證）	Bureau of Industry and Commerce of Xi'an （西安市工商行政管理局）	30 November 2054
Pharmaceutical Manufacturing Permit （藥品生產許可證）*(Note 1)*	Drug Administration of Shaanxi Province （陝西省藥品監督管理局）	30 December 2005
Hygiene Permit (Production and Sale of Health-care Products (Oral Solution)) （衛生許可證（生產、銷售保健食品（口服液）））	Hygiene Bureau of Shaanxi Province （陝西省衛生廳）	26 November 2007
Hygiene Permit (Production and Sale of Food Addictives (Sodium D-iso ascorbate)) （衛生許可證（生產、銷售食品添加劑（D-異抗壞血酸鈉）））	Hygiene Bureau of Shaanxi Province （陝西省衛生廳）	13 September 2008

License or Permit Obtained by Xi'an Lijun	Issuing Authority	Expiry Date
GMP Certificates		
– Tablets (Including hormones), Capsules, Granules	Food and Drug Administration of Shaanxi Province	13 October 2009
– Small volume parental solutions (including hormones), powder for injection (cephalosporins), Lyophilized power for injection	SFDA	28 August 2010
– Bulk pharmaceuticals (Erythromycin)	Food and Drug Administration of Shaanxi Province	7 March 2009
– Bulk drug (Erythromycin ethylsuccinate)	SFDA	29 December 2007
– Bulk drug (Tetracycline Hydrochloride, Calcium Dobesilate, Clarithromycin, Urapidil hydrochloride, Armillarisin A, Azithromycin, Erythromycin Estolate)	Food and Drug Administration of Shaanxi Province	17 November 2009

Note 1: Formerly known as Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證).

License or Permit Obtained by Heng Xin Tang	Issuing Authority	Expiry Date
Business license (營業許可證)	Bureau of Industry and Commerce of Xi'an (西安市工商行政管理局)	No expiry date
Pharmaceutical Manufacturing Permit (藥品生產許可證) *(Note 1)*	Drug Administration of Shaanxi Province (陝西省藥品監督管理局)	30 December 2005
GMP Certificates – tablets, granules, powders, pills	Food and Drug Administration of Shaanxi Province	2 December 2009

Note 1: Formerly known as Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證).

The above-mentioned permits and licences obtained by the Group for the manufacturing of its products are subject to regular renewal by the relevant government authorities.

The Group's production lines are equipped with automated machinery and equipment. In general, a production line of the Group can be used to produce different kinds of products in the same physical form without the need of material modifying the production facilities and equipment. As such, the Group can adjust its production plan to meet market demand.

The Group has adopted stringent control over its production staff. For those newly joined production staff, the Group will provide them with adequate training in relation to the GMP, production methods, safety measures and operational procedures. Refreshment courses on new technology and production techniques will also be conducted for existing staff on a regular basis. The Directors believe that the provision of such training would ensure that the Group keeps abreast of the latest production technology.

Production capacities

The following table illustrates the production capacities and the utilization rates of the Group's production facilities for pharmaceutical products during the Track Record Period:

		Year ended 31 December											
		2002			2003			2004			Six months ended 30 June 2005		
Product form	Unit	Budgeted annual production capacity *(Note 1)*	Actual production amount	Utilisation rate *(%)*	Budgeted annual production capacity *(Note 1)*	Actual production amount	Utilisation rate *(%)*	Budgeted annual production capacity *(Note 1)*	Actual production amount	Utilisation rate *(%)*	Budgeted semi-annual production capacity *(Note 1)*	Actual production amount	Utilisation rate *(%)*
Tablets *(Note 2)*	10,000 tablets	600,000	580,396	96.7	600,000	607,658	101.3	600,000	686,193	114.4	300,000	362,863	121.0
Granules	10,000 packets	7,000	6,724	96.1	9,500	9,201	96.9	10,000	9,389	93.9	5,000	3,691	73.8
Capsules	10,000 capsules	2,400	2,405	100.2	3,000	2,645	88.2	5,000	3,844	76.9	2,500	2,189	87.6
Injection	10,000 injection	8,000	9,402	117.5	8,000	8,069	100.9	8,000	6,273	78.4	4,000	3,532	88.3
Powder for injection	10,000 injection	400	482	120.5	800	674	84.3	1,380	1,276	92.5	690	826	119.7
Lyophilized powder for injection	10,000 injection	300	463	154.3	800	1,027	128.4	1,000	1,312	131.2	500	874	174.8
Tetracycline Hydrochloride	Tonnes	300	275	91.7	300	223	77.7	300	212	70.7	150	72	48.0

Notes:

1. Budgeted annual production capacity is arrived at based on normal working hours. Utilization rate which exceeds 100% was mainly attributable to overtime of production.

2. The actual production amount of Lijunsha tablets were approximately 1,275,000,000, 1,400,000,000, 1,071,000,000 and 415,000,000 for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively.

Immediately after Xi'an Lijun became a 51% shareholder of Heng Xin Tang in 2003, Heng Xin Tang produced its Chinese medicines by using the production facilities existed then, which was not up to the standard of the GMP. As a result, in around mid of 2004, Heng Xin Tang ceased its production and the production facilities of Heng Xin Tang underwent certain restructurings in order to comply with the GMP which became compulsory in July 2004. Heng Xin Tang obtained the GMP certificate for the production of tablets, granules, powders and pills in December 2004 and commenced production in January 2005.

The following table illustrates the capacities and the utilisation rates of Heng Xin Tang for the period immediately after Xi'an Lijun becoming the shareholder of Heng Xin Tang to 31 December 2003, for the period from 1 January 2004 to immediately before the restructuring of the production facilities of Heng Xin Tang in 2004 in order to comply with the GMP and for the six months ended 30 June 2005:

		Period immediately after Xi'an Lijun becoming the shareholder of Heng Xin Tang to 31 December 2003			Year ended 31 December 2004			Six months ended 30 June 2005		
Product form	**Unit**	**Budgeted production capacity** *(Notes 1 & 3)*	**Actual production amount**	**Utilisation rate** *(%)*	**Budgeted production capacity** *(Notes 2 & 3)*	**Actual production amount**	**Utilisation rate** *(%)*	**Budgeted production capacity** *(Note 3)*	**Actual production amount**	**Utilisation note** *(%)*
Tablets	10,000 tablets	8,000	400	5.0	8,000	2,400	30.0	7,500	59	0.8
Granules	10,000 packets	1,800	15	0.83	1,800	2,703	150.2	1,150	0	0
Powder	10,000 packets	275	74	26.9	275	128	46.5	150	7	4.7
Liquid pills	10,000 packets	2,500	648	25.9	2,500	2,901	116.0	1,700	17	1.0
Condensed pills	10,000 bottles	90	85	94.4	90	22	24.4	100	31	31.0
Large honeyed pills	10,000 pills	1,000	587	58.7	1,000	1,140	114.0	600	10	1.7

Notes:

1. It represents the approximate production capacity of Heng Xin Tang for the period immediately after Xi'an Lijun becoming the shareholder of Heng Xin Tang to 31 December 2003.

2. It represents the approximate production capacity of Heng Xin Tang for the period from 1 January 2004 to immediately before the restructuring of the production facilities of Heng Xin Tang in order to comply with the GMP.

3. Budgeted production capacity is arrived at based on normal working hours. Utilisation rate which exceeds 100% was mainly due to overtime of production.

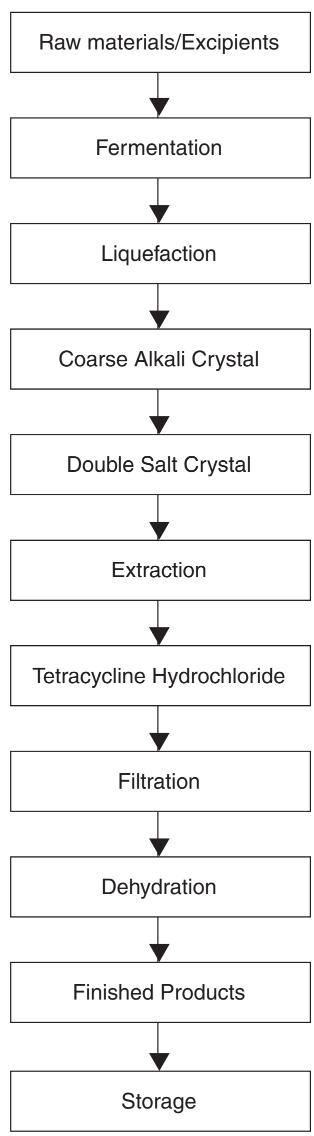
Production process

The production processes of the Group involve various stages. In order to maintain a smooth and reliable production process, most stages of the production process are automated such as control of temperature, pressure, processing time, the proportion and the release time of ingredient. Save as repairs and maintenance and/or enhancement of production facilities, the Group has not experienced any material failure in the machinery and interruption of the production process for the Track Record Period and up to the Latest Practicable Date.

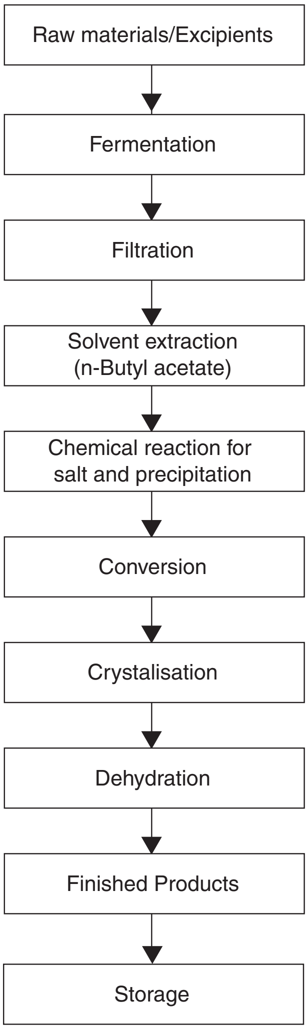
Bulk pharmaceuticals

The following diagrams illustrate the production processes for the Group's major bulk pharmaceuticals:

Production flow of tetracycline hydrochloride



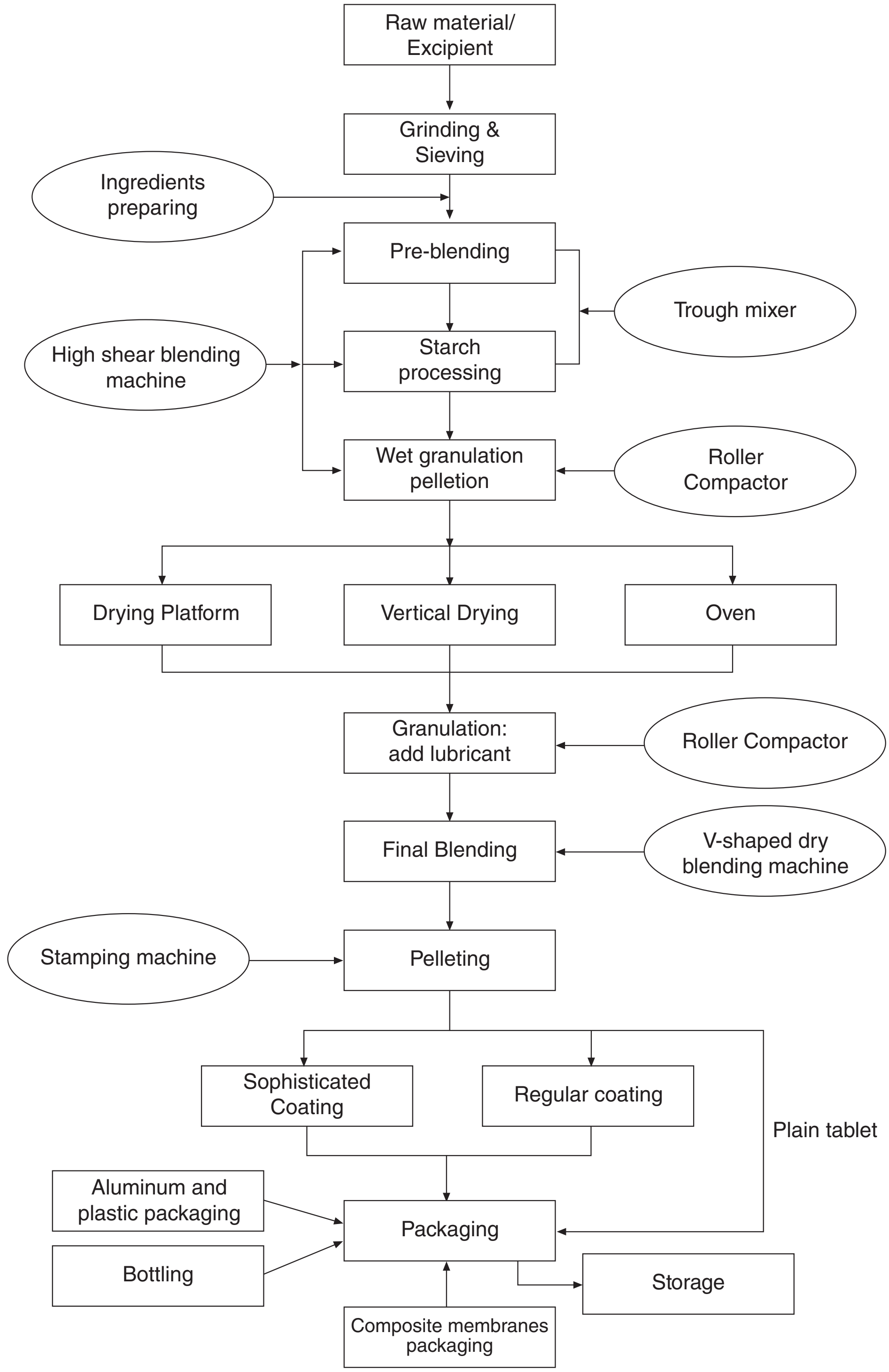
Production flow of Erythromycin



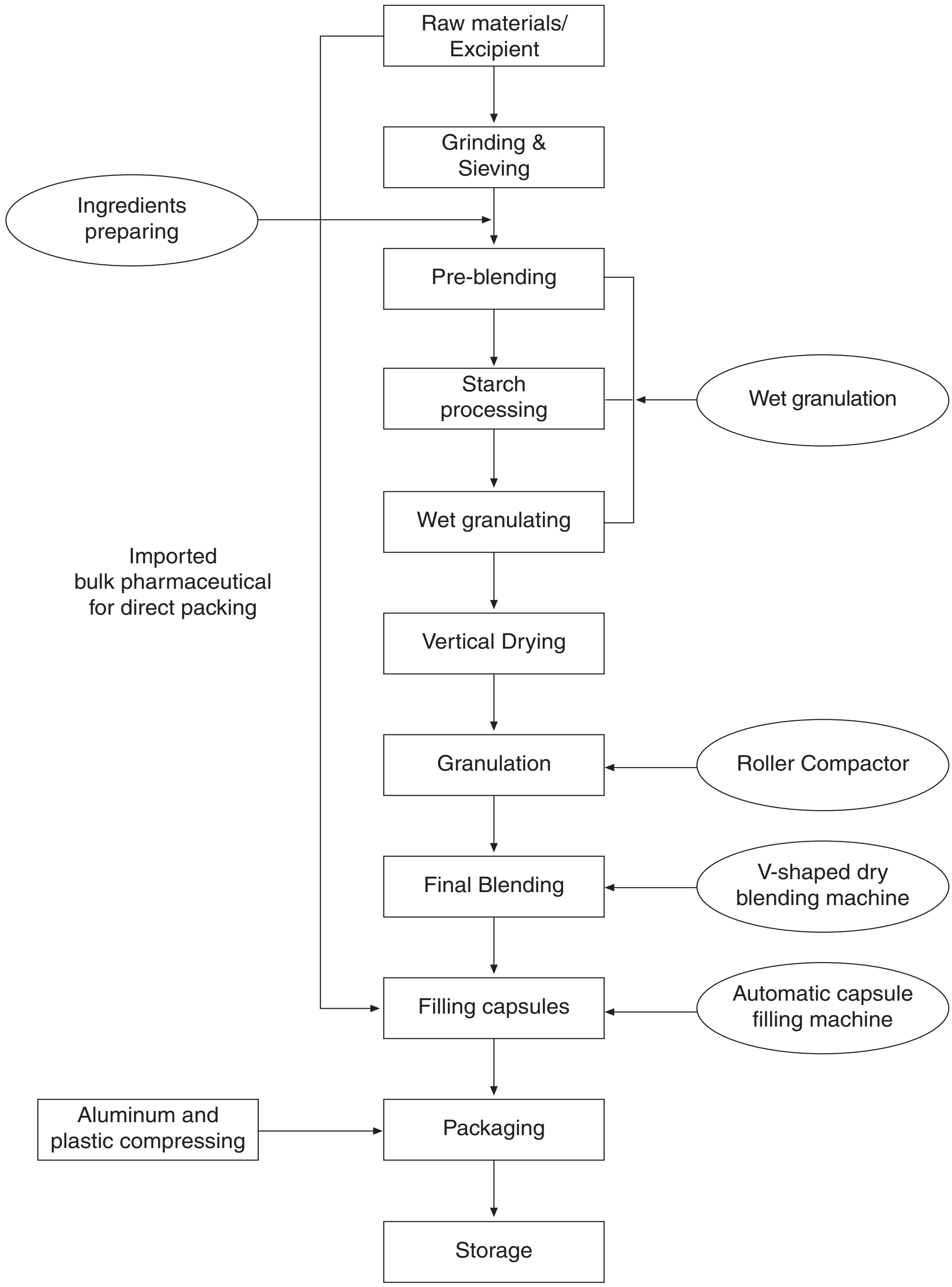
Finished Medicines

The following diagrams illustrate the Group's production processes for the manufacturing of various forms of pharmaceutical products:

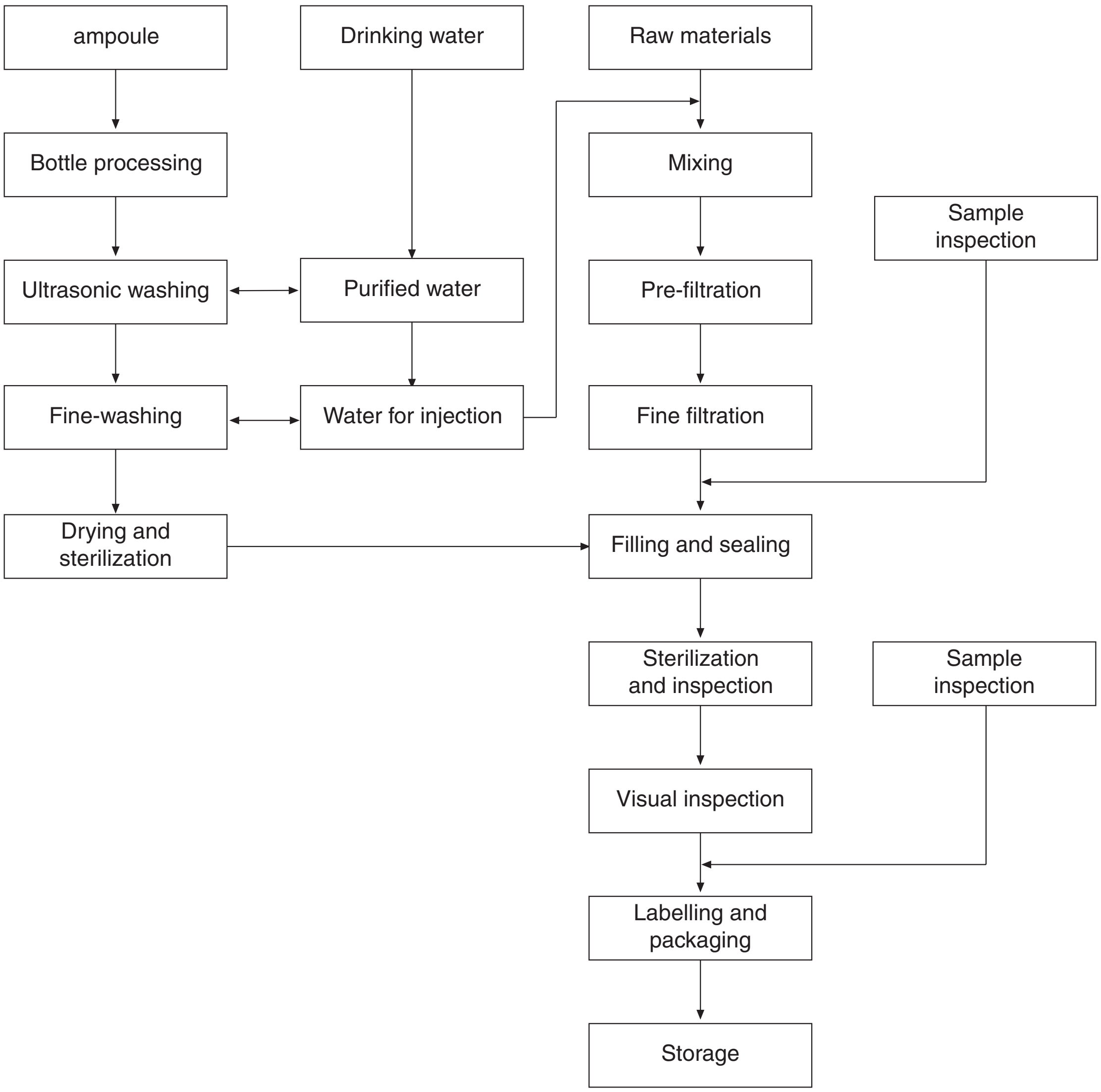
Production flow of oral pharmaceuticals (tablets)



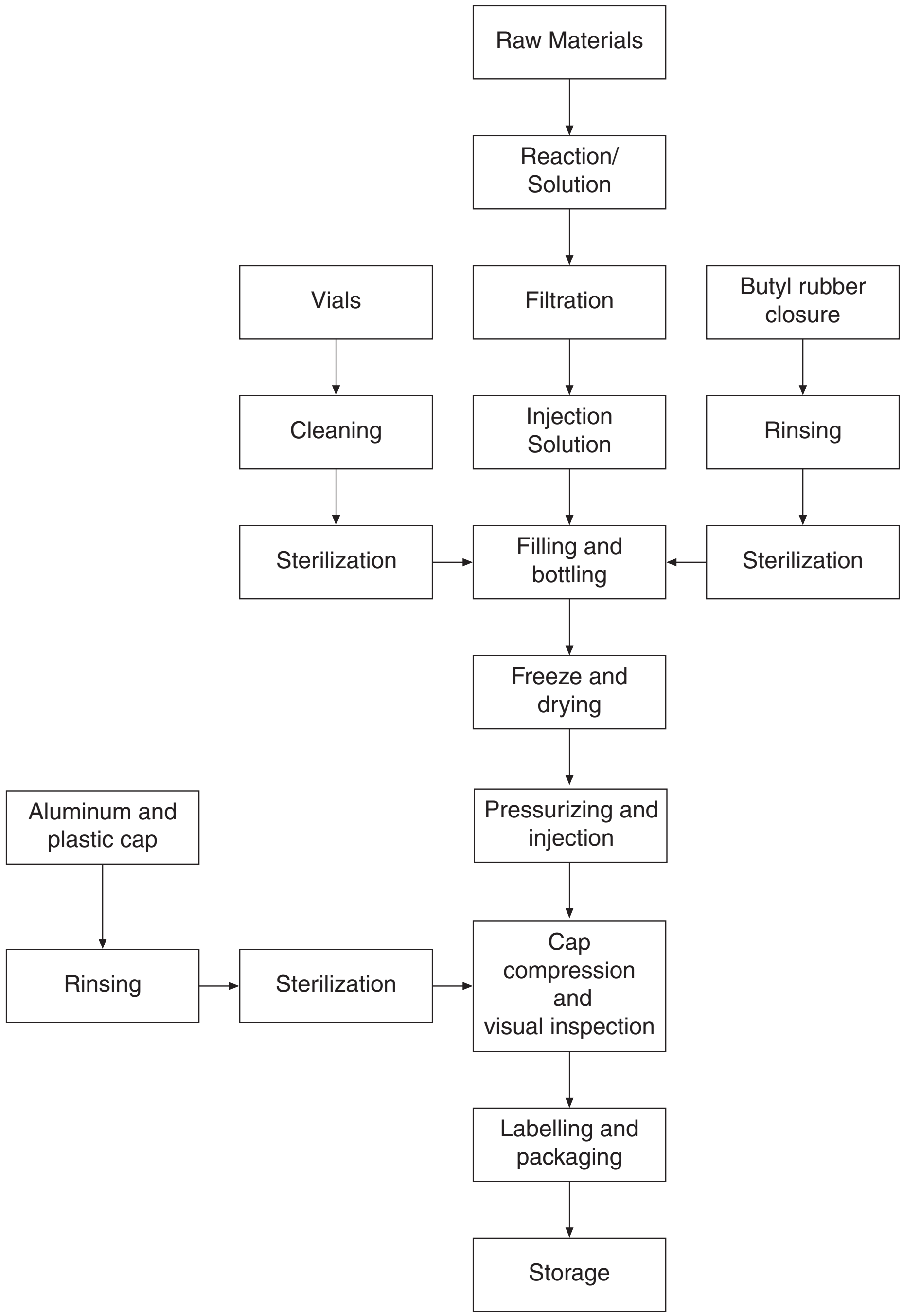
Production flow of oral pharmaceutical (capsules)



Production flow of liquid injection



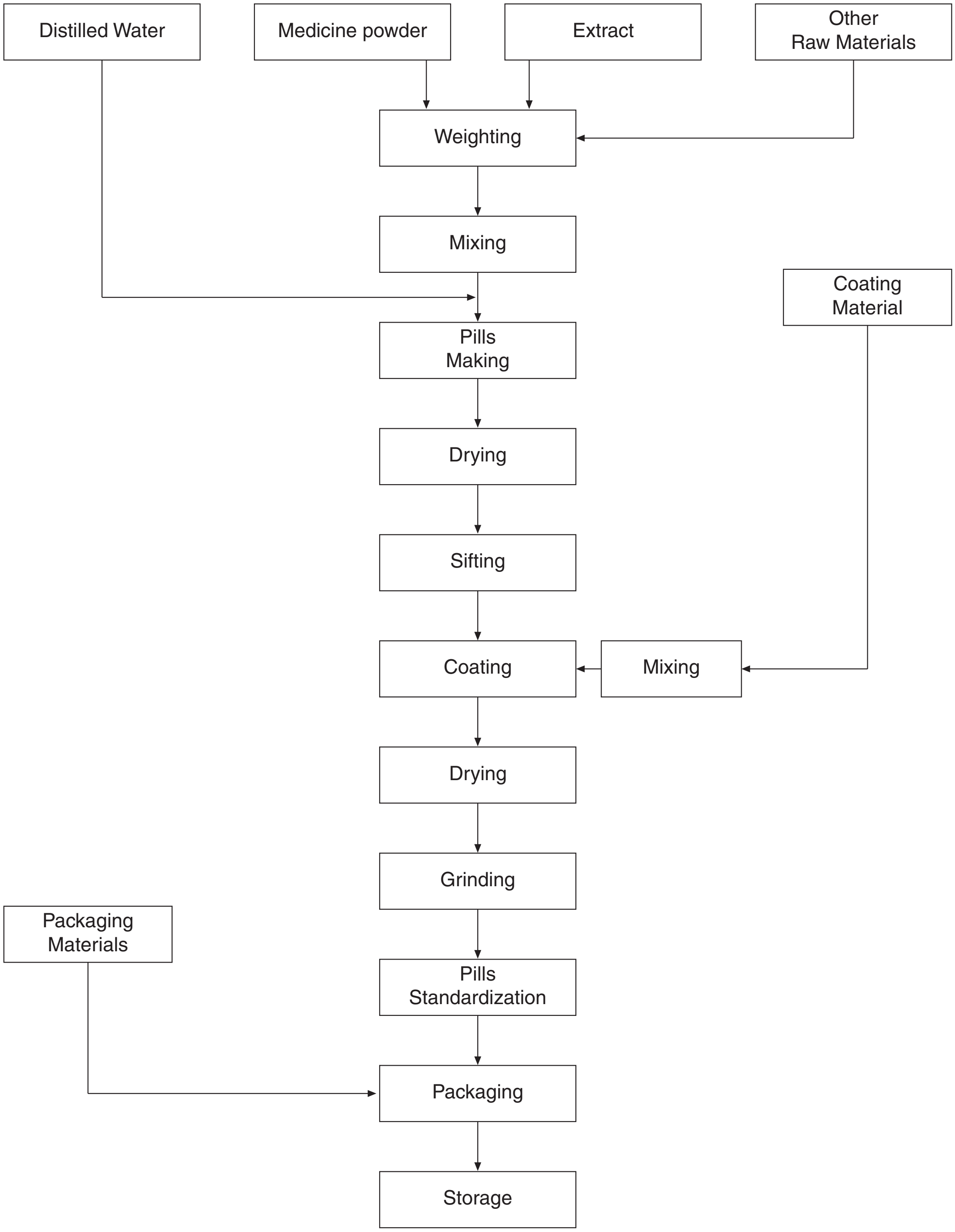
Production flow of lyophilized powder for injection



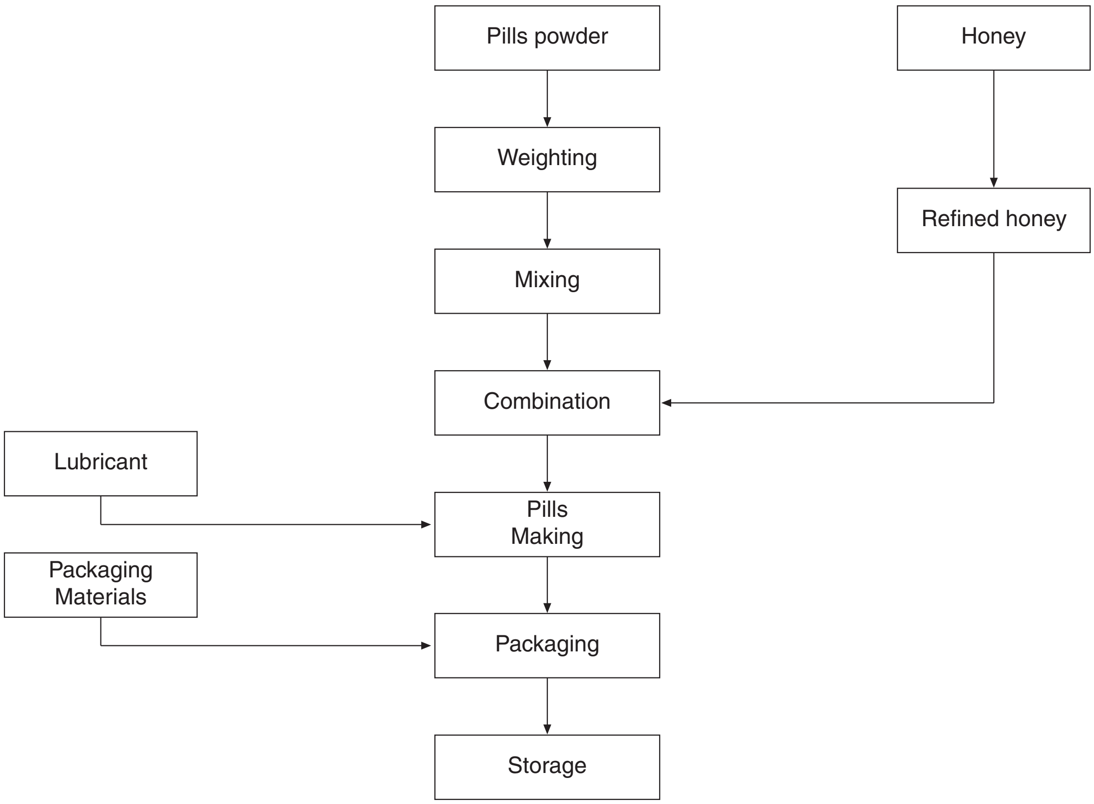
Chinese medicines

The following diagrams illustrate the production processes for production processes for various forms of Chinese medicines manufactured by Heng Xin Tang:

Production flow of condensed pills



Production flow of large honeyed pills



RAW MATERIALS AND SUPPLIERS

The principal raw materials used for the Group's products are erythromycins, bulk cephalosporins, aspirin, anagine, tetrahydrofuran and starch. The Group sources intermediate pharmaceuticals and bulk pharmaceuticals from suppliers in the PRC for further production into the Group's pharmaceutical products.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, cost of direct materials consumed amounted to approximately RMB264.6 million, RMB289.8 million, RMB309.1 million and RMB156.5 million respectively (representing approximately 67.2%, 69.4%, 68.8% and 71.6% of the total cost of goods sold for the corresponding year/period of the Group respectively). During the Track Record Period, the Group sourced all its raw materials from the domestic market in the PRC.

The Directors consider that it is unlikely the Group will suffer from any shortage in the supply of raw materials as the Group would be able to source raw material suppliers within a short period of time and without any substantial increase in the price of raw materials in the event that the existing major suppliers of the Group, for whatsoever reasons, ceases business relationship with the Group. The Group has maintained business relationships with most of the top ten suppliers ranging from three years to ten years. The Directors consider that these established business relationships ensure the Group with a stable supply of raw materials. During the Track Record Period, the prices of raw materials did not materially fluctuate and the Group did not experience any prolonged shortage in the supply of raw materials.

The selection of suppliers of the Group was mainly based on the quality and the price of raw materials supplied. All raw materials are inspected and tested for quality by the Group before delivery to the warehouses of the Group. The Company normally settles the payment to the suppliers within 30 to 90 days from the delivery date by cash, cheque and bank transfer. For the Track Record Period, settlements of purchases are all denominated in RMB.

For the Track Record Period, purchases from the Group's largest suppliers amounted to approximately RMB36.8 million, RMB31.1 million, RMB42.1 million and RMB20.7 million respectively, representing approximately 12.9%, 10.3%, 13.6% and 12.5% respectively of the Group's total purchases of raw materials. For the same period, purchases from the Group's five largest suppliers amounted to approximately RMB100.1 million, RMB97.1 million, RMB96.1 million and RMB59.7 million respectively, representing approximately 35.0%, 32.2%, 31.0% and 35.9% respectively of the Group's total purchases.

Rejoy Group Zhenjiang Pharmaceutical Co., Ltd. (利君集團鎮江製藥有限責任公司) ("Zhenjiang Pharmaceutical"), a company incorporated in the PRC and is held as to 51% by Rejoy Group, was one of the Group's five largest suppliers for the three years ended 31 December 2004. In this respect, on 26 September 2005 Rejoy Group entered into an agreement to dispose of its 51% equity interest in Zhenjiang Pharmaceutical to an Independent Third Party. It is expected the equity transfer will be completed around December 2005. Save for Zhenjiang Pharmaceutical, none of the Directors, their respective associates or, so far as the Directors are aware of, Shareholders who own more than 5% of the issued share capital of the Company has any interest in the top five largest suppliers of the Group respectively for each of the three years ended 31 December 2004 and the six months ended 30 June 2005. Please refer to the paragraph headed "Related party transactions and connected transactions" in the section headed "Business" in this prospectus for details of the connected transaction.

The creditors' turnover periods (defined as average trade and bills payable divided by the cost of goods sold times 365 days) of the Group were approximately 31 days, 32 days and 36 days respectively for each of the three years ended 31 December 2004. For the six months ended 30 June 2005, the creditors' turnover period (defined as average trade and bills payable divided by the cost of goods sold times 180 days) of the Group was approximately 41 days. The creditors' turnover periods remained stable for the year 2002 and 2003 while it has been increased for the year 2004 and first half of 2005 as the Group had endeavoured to utilise the credit term offered by its suppliers as much as possible so as to better utilise its working capital.

INVENTORIES

In order to ensure that the Group's production process will not be interrupted as a result of shortage in the supply of raw materials and that the Group has sufficient finished products available to meet customers' orders, the Group will normally keep certain level of inventories. The Group will normally keep raw materials at a level that can be used for production in the current month on a just-in-time basis. However, for finished products, the Group will not maintain a pre-determined level and the management will, based on its experience, closely monitor the sales volume and the customers' orders in order to determine the necessary stock level for finished products.

The raw materials can be stored for up to 6 months to 3 years depending on their nature. For finished products, they can be stored for up to 4 years according to the SFDA requirements while bulk pharmaceuticals can be stored for up to 3 years. For Chinese medicines, they can normally be stored for 3 years. The aforesaid expiration dates are disclosed in the package of the Group's finished medicines, bulk pharmaceuticals and Chinese medicines.

To better manage the flow of raw materials and finished goods, the Group set up a computerised logistics centre in year 2001. The site area of this logistic centre is approximately 4,000 sq.m.. The logistic centre is equipped with advanced automated logistic system for the automation of the stock flow, stocktaking, delivery and stock management. It also provides prompt data transmission and enquiries, and inventory analysis. The logistics centre provides a reliable internal control system for the management of stock movement, inventories level, usage of materials and delivery of finished goods to customers. It also smooths out the production process, facilitates the management of the inventory and shortens the delivery time for the Group's customers.

For each of the three years ended 31 December 2004, the inventory turnover periods (calculated as average inventories divided by the cost of goods sold times 365 days) of the Group were approximately 71 days, 76 days and 71 days, respectively. For the six months ended 30 June 2005, the inventory turnover period (calculated as average inventories divided by the cost of goods sold times 180 days) of the Group was approximately 70 days. For the year ended 31 December 2003, the inventory turnover period increased slightly due to outbreak of SARS which increased the Group's inventory level. For the year ended 2004, the Group strengthened its inventory management in order to meet market demand. Inventory level and hence inventory turnover period decreased. For the six months ended 30 June 2005, inventory turnover period remained stable at 70 days.

The Group has adopted a provision policy for inventory pursuant to which full provision will be made for inventory which passes its expiry date. For specific provision, it will be made as and when the management of the Group considers appropriate. The Group did not encounter any material write down problem for its inventory.

For the year ended 31 December 2002, 31 December 2004 and the six months ended 30 June 2005, the Group has reversed the inventory write-down of approximately RMB3,125,000, RMB4,556,000 and RMB1,015,000 respectively as the Group has disposed certain finished goods which it has made provision in prior years. For the year ended 31 December 2003, the Group has made provision for write-down of inventory of approximately RMB544,000 as the net realisable value of certain finished goods were lower than its costs.

QUALITY CONTROL

The Directors believe that the quality of products and customer satisfaction are key elements of success. In light of foregoing, the Group has established a quality control department. The department consisted of 91 staff as at the Latest Practicable Date and they are responsible for the implementation of the Group's quality control measures. In addition, the Group also adheres to the quality control standards promulgated by the relevant regulatory authorities in the PRC.

The products of the Group need to meet the quality standards prescribed by the government. Most of the products need to meet the standards set out in the pharmacopoeia of the PRC. For new products or products not listed in pharmacopoeia of the PRC, they are required to comply with the requirements promulgated by SFDA from time to time.

The Group will perform quality testing on a sample basis for the raw materials before it can be used in the production process, semi-finished products produced during each stage of production process and the finished products before they are packed and stored in warehouses. In doing so, the Group is able to ensure that the quality of raw materials, semi-finished products and finished products satisfies the standards set by the Group. To perform the quality control measures, the Group has been equipped with advanced equipment such as high pressure liquid chromatograph, gas chromatograph, infrared spectrophoto-meter and ultraviolet spectrophoto-meter. Finished goods are shown with the dates of production and expiry dates.

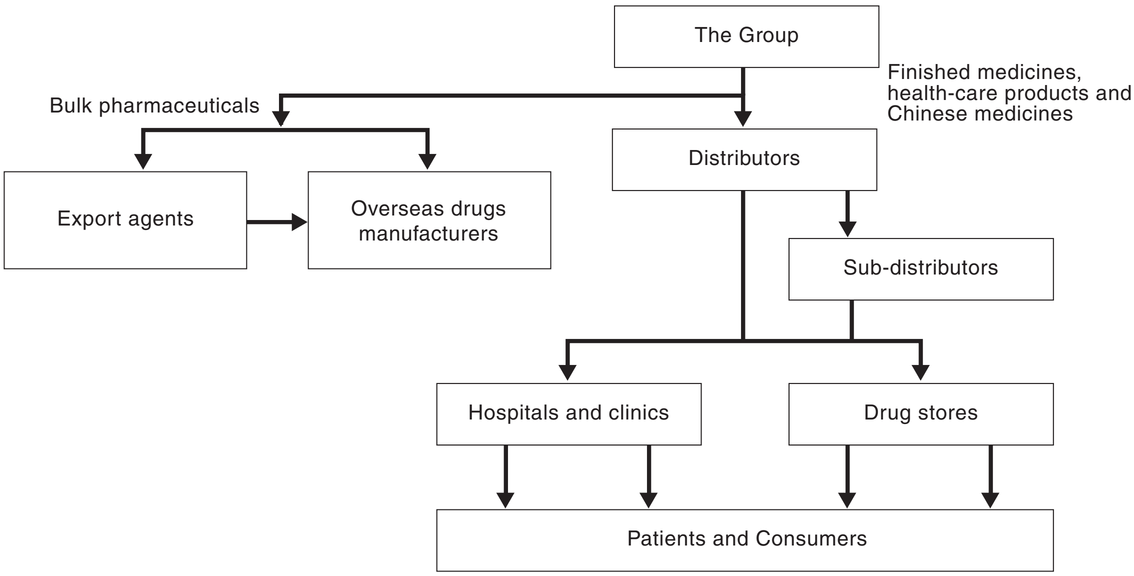
The Group organises training programs for its staff to ensure that they have the requisite knowledge in performing the Group's quality control measures. The Group has produced and maintained a quality control manual which prescribes the procedures to be administered by its staff. The Group's products are attached with detailed instructions showing the chemical components, specification, curative effects, side effects and dosage. The Group has stipulated sales return policy and keeps samples of finished products and perform periodic quality testing. The Group will collect or customers can demand sales return for products with quality problem.

During the Track Record Period, the Group had not experienced any material sales return due to quality problems. The Directors consider that the Group's success is partly attributable to its stringent quality control procedures.

SALES AND MARKETING

Sales and marketing network

The Group has established an extensive sales and marketing network in the PRC for its business. The Group's products including finished medicines and Chinese medicines are primarily sold to its appointed distributors in the PRC. The Group's appointed distributors then sell the Group's products directly or indirectly through sub-distributors to drug stores, hospitals and clinics in the PRC. As at the Latest Practicable Date, the Group did not own or operate any drug stores, hospitals and/or clinics. On the other hand, the bulk pharmaceuticals produced by the Group, other than those that are used by the Group for its production of finished medicines, are sold to overseas drugs manufacturers directly by itself or through its export agents. As at the Latest Practicable Date, acceptance from the Food and Drug Administration of US has been obtained for the production facilities of erythromycin and tetracycline hydrochloride. The Group has not applied for acceptance for the production facilities of other bulk pharmaceuticals from the Food and Drug Administration of US as they have not been exported to the US. The Group intends to sell its health care products to its appointed distributors in the PRC. The following chart sets out the structure of the Group's distribution network:



A centralised tender system for purchase of pharmaceutical products by medical organisations was introduced in the PRC since year 2000. During the Track Record Period, the Group had submitted bids through the centralised tender system to medical organisations either directly by itself or through its distributors. In respect of successful bids, the Group's products were also sold to the medical organisations through its distributors. The number of the bids submitted either directly by the Group or through its distributors through the centralised tender system to the medical organisations and the number of successful bids for the Track Record Period are set out below:

	For the year ended 31 December			For the six months ended
	2002	**2003**	**2004**	**30 June 2005**
Number of bids submitted	38	47	50	15
Number of successful bids	31	39	42	14

As at the Latest Practicable Date, the Group appointed approximately 404 distributors in the PRC covering approximately 25 provinces or autonomous regions and four centrally administrative municipalities cities in the PRC. Each of the Group's distributors can distribute the Group's products only within the respective regions designated by the Group. The geographical distribution of the Group's major distributors in the PRC is as follows:

Regions	*Notes*	**Number of distributors**
North eastern China	*1*	42
Northern China	*2*	70
Central China	*3*	82
South western China	*4*	39
North western China	*5*	61
Eastern China	*6*	68
Southern China	*7*	42
Total		404

Notes:

1. In this prospectus, North eastern China mainly includes Heilongjiang, Jilin and Liaoning.

2. In this prospectus, Northern China mainly includes Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia.

3. In this prospectus, Central China mainly includes Henan, Anhui, Hubei, Hunan and Jiangxi.

4. In this prospectus, South western China mainly includes Sichuan, Yunnan, Guizhou and Chongqing.

5. In this prospectus, North western China mainly includes Gansu, Qinghai, Ningxia, Xinjiang and Shaanxi.

6. In this prospectus, Eastern China mainly includes Shandong, Zhejiang, Jiangsu, Fujian and Shanghai.

7. In this prospectus, Southern China mainly includes Guangdong and Guangxi.

The Group has established a sales and marketing decision and strategy committee which is mainly responsible for the Group's overall sales and marketing strategy formulation and decision making by conducting weekly and monthly meeting. The Group has also set up a sales and marketing department headquartered in Xi'an and 26 sales offices throughout the PRC. The Group's sales and marketing department headquartered in Xi'an formulates detailed action plans based on the sales and marketing strategies formulated by the sales strategy committee and closely monitors their implementation. The Group's sales and marketing staff located at each of the sales office are responsible for implementing the Group's sales and marketing plans, cooperating with the Group's distributors on promotion activities of the Group's products, and monitoring the sales performance, inventory level and business operation of these distributors. The sales offices of the Group are also responsible for after-sales services including follow-up interviews with ultimate customers such as drug stores, hospitals and/or clinics regarding the feedbacks on the Group's products and handling of the complaints and return of goods with quality defects from these ultimate customers. As at the Latest Practicable Date, the Group employed approximately 422 sales and marketing staff, to whom the Group has provided continuous training about the Group's products, sales techniques and latest development in the pharmaceutical market.

The Group's distributors co-operate with the Group in implementing the Group's sales and marketing strategies and promoting the Group's products. These distributors are also responsible for monitoring the relationship with its sub-distributors as well as hospitals, clinics and drug stores. The Group normally enters into annual distribution agreements with its major distributors, the major terms of which including (a) the target amounts (in RMB) to be purchased by the distributors; (b) the minimum selling prices of the Group's products to be sold by the distributor to its customers; (c) the basis of commission; and (d) the designated sales regions.

In order to pursue business growth, the Group will continue to identify potential and experienced distributors with aims to broaden its distribution network. The Group will conduct assessment to select suitable distributors based on their reputation, credit history, financial position and sales network.

Sales

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group's total sales were approximately RMB860,863,000, RMB896,307,000, RMB903,006,000 and RMB433,092,000 respectively.

The Group's consolidated sales analysed by product category for each of the three years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 were as follows:

	For the year ended 31 December						For the six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of finished medicines										
1. Antibiotics										
– Lijunsha (利君沙)	531,870	61.8	529,956	59.1	489,825	54.2	262,336	57.3	203,352	47.0
– Paiqi (派奇)	24,518	2.8	53,400	6.0	72,224	8.0	35,608	7.8	43,594	10.1
– Erythromycin tablets (紅霉素片)	59,169	6.9	65,036	7.3	52,761	5.8	25,846	5.6	28,688	6.6
– Cephalosporins (including Lijunpaitong and Lijunpaishu) (頭孢類(包括利君派同及利君派舒))	23,580	2.7	30,928	3.5	53,663	5.9	18,677	4.1	27,949	6.5
– Limaixian (利邁先)	23,608	2.7	24,269	2.7	12,688	1.4	7,303	1.6	8,609	2.0
– Other antibiotics	23,561	2.7	16,460	1.8	21,365	2.4	12,444	2.7	12,331	2.8
Sub-total	686,306	79.6	720,049	80.4	702,526	77.7	362,214	79.1	324,523	75.0
2. Other finished medicines	123,004	14.3	118,799	13.3	126,061	14.0	60,537	13.2	65,960	15.2
Sub-total	809,310	93.9	838,848	93.7	828,587	91.7	422,751	92.3	390,483	90.2

Sale of bulk pharmaceuticals										
3. Tetracycline hydrochloride (鹽酸四環素)	32,555	3.8	24,392	2.7	20,630	2.3	13,532	3.0	5,444	1.3
4. Erythromycin thiocyanate (高力霉素)	6,000	0.7	21,205	2.4	26,985	3.0	10,636	2.3	17,357	4.0
5. Other bulk pharmaceuticals	5,962	0.7	3,043	0.3	13,227	1.5	2,279	0.5	12,813	3.0
Sub-total	44,517	5.2	48,640	5.4	60,842	6.8	26,447	5.8	35,614	8.3
Sale of Chinese medicines	–	0.0	2,740	0.3	7,600	0.8	5,279	1.2	4,447	1.0
Sale of raw materials and by-products	2,218	0.3	1,293	0.1	1,473	0.2	630	0.1	780	0.2
Processing income	4,818	0.6	4,786	0.5	4,504	0.5	2,424	0.6	1,768	0.3
Total	860,863	100.0	896,307	100.0	903,006	100.0	457,531	100.0	433,092	100.0

SFDA issued the "Notice on Strengthening Controls on Sale of Antibacterial Agents in Retail Pharmacy Stores" (the "Notice") on 24 October 2003, and the Notice became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians. As a result, the sales of certain antibiotics products of the Group were affected after the introduction of the Notice as all of the antibiotics products of the Group were prescription medicines. As shown in the table above, the Group's sales of antibiotics amounted to approximately RMB686,306,000, RMB720,049,000, RMB702,526,000 and RMB324,523,000 respectively for each of the three years ended 31 December 2004 and the six months ended 30 June 2005, representing approximately 79.6%, 80.4%, 77.7% and 75.0% of the Group's total sales respectively over the same period. Among the Group's five major antibiotics, Lijunsha, Erythromycin tablets and Limaixian are mainly indirectly sold to drug stores, hospitals and clinics whereas Paiqi and Cephalosporins are mainly indirectly sold to hospitals and clinics. As such, the Group's sales of Lijunsha, Erythromycin tablets and Limaixian had dropped in year 2004 due to the introduction of the Notice pursuant to which purchase of such products in drug stores in the PRC requires doctor prescriptions. However, the implementation of the Notice had not affected the Group's sales of Paiqi and Cephalosporin in year 2004 and in first half of 2005 as the major ultimate markets of such products were and will continue to be hospitals and clinics in which the usage of such products must be according to doctor prescriptions regardless of the implementation of the Notice.

In view of the new requirements under the Notice and the anticipated impact of the Notice on the Group's sales performance, the Group has taken certain measures to minimize the effect of the Notice on the Group's sales of antibiotics, which include but not limited to: (i) adjusting its sales and marketing strategy by putting more resources to increase doctors' awareness of Group's antibiotics products by organising seminars; and (ii) granting longer credit terms to its distributors and in turn, the distributors granting longer credit terms to hospitals and clinics to encourage the use of the Group's products.

The geographical breakdown of the Group's sales for the Track Record Period are as follows:

	For the year ended 31 December						For the six months ended 30 June 2005	
	2002		2003		2004			
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PRC	833,410	96.8	854,626	95.3	875,887	97.0	420,746	97.1
Exports	27,453	3.2	41,681	4.7	27,119	3.0	12,346	2.9
Total	860,863	100	896,307	100	903,006	100.0	433,092	100.0

Over 90% of the Group's sales are generated in the PRC. Only a small portion of Group's products, all of which were bulk pharmaceuticals, were exported. The major exported countries include US, Germany and Brazil.

Bulk pharmaceutical products produced by the Group are either used by the Group for its production of finished medicines or exported to overseas directly or indirectly through export agents in the PRC. The sales of bulk pharmaceutical products to export agents in the PRC have been classified as domestic sales, amounting to approximately RMB17,064,000, RMB6,959,000, RMB33,723,000 and RMB23,268,000 respectively for the three years ended 31 December 2004 and the six months ended 30 June 2005. For the same period, the remaining sales of bulk pharmaceuticals amounting to approximately RMB27,453,000, RMB41,681,000, RMB27,119,000 and RMB12,346,000 respectively were classified as export sales.

Pricing policy

As at the Latest Practicable Date, 85 and 55 of the Group's regularly produced pharmaceutical products and Chinese medicines respectively were subject to price control of the government administration authorities or the relevant authorities in the PRC as they are included in the price control lists which are listed in the Insurance Catalogue subject to a price range stipulated by the government. The prices of the remaining regularly produced pharmaceutical products and Chinese medicines of the Group are determined by the Group itself based on the production costs including raw materials, production overheads, packaging materials and labor costs and market demand and supply.

The main objective of price control policy is to set upper limits on the prices of pharmaceutical products in order to prevent excessive increases in the prices of those commonly used pharmaceutical products. For further information, please refer to the paragraph headed "Pricing policy" under the section headed "Industry overview" in this prospectus. Lijunsha is a kind of erythromycin ethylsuccinate and all erythromycin ethylsuccinate products are basically subject to a similar price set by the government. However, given the premium quality of Lijunsha, Lijunsha was subject to another pricing admitted by the State Development Planning Commission which is normally higher than the price set by the government on other erythromycin ethylsuccinate products.

Due to the implementation of governmental price control policy and keen market competition, the selling prices of the Group's major products had not exceeded the government stipulated prices range during the Track Record Period. The Group managed to maintain a gross profit margin of approximately 50% during the Track Record Period.

The Group determines and sets the price of its products carefully in order to ensure the products of the Group are competitive within its markets. The Directors consider that the prices of the Group's products have to be adjusted from time to time as the competition within the pharmaceutical industry is keen. In determining the prices of the products, the Group mainly takes into account the prevailing market prices.

For the Track Record Period, sales of the Group's pharmaceutical products and Chinese medicines that were included in Insurance Catalogue and subject to price control amounted to approximately RMB720.5 million, RMB766.0 million, RMB752.3 million and RMB331.6 respectively representing approximately 83.7%, 85.5%, 83.3% and 76.6% of total sales of the Group respectively.

Customers

The Group's products including finished medicines and Chinese medicines are primarily sold to its appointed distributors in the PRC. The Group intends to sell its health care products to its appointed distributors in the PRC. The Group's appointed distributors then sell the Group's products directly or indirectly through sub-distributors, to drug stores, hospitals and/or clinics in the PRC. On the other hand, the Group's bulk pharmaceuticals are mainly sold to overseas drugs manufacturers directly by itself or through its export agents. As at the Latest Practicable Date, the Group appointed approximately 404 distributors in the PRC covering approximately 25 provinces or autonomous regions and 4 centrally administrative municipalities cities in the PRC.

The Group will normally enter into distribution agreements with its major distributors on an annual basis setting out the sales target. If the Group's distributors fail to meet certain levels of the sales target as set out in the distribution agreements, the Group may appoint new distributors to replace the existing distributors. In addition, if the distributors achieve the sales target, certain discounts will be given to such distributors. On the other hand, if the distributors fail to achieve the sales target, no discount or less discount will be given to them.

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, sales to the Group's five largest customers, all of them are distributors and other manufacturers of pharmaceutical products in aggregate amounted to approximately RMB109.8 million, RMB108.3 million, RMB144.1 million and RMB61.9 million respectively, representing approximately 12.8%, 12.1%, 16.0% and 14.3% respectively of the Group's total sales. For the same period, sales to the Group's largest customer amounted to RMB29.8 million, RMB24.2 million, RMB48.1 million and RMB23.8 million respectively, representing approximately 3.5%, 2.7%, 5.3% and 5.5% respectively of the Group's total sales.

Liaoning Huabang Pharmaceutical Co., Ltd. (遼寧華邦醫藥有限公司) ("Liaoning Huabang"), a company established in the PRC and is wholly-owned by the beneficial shareholders of Bondwide Trading Limited, one of the Controlling Shareholders, was one of the Group's five largest customers for each of the two years ended 31 December 2002 and 2003. Xi'an Rejoy Medicine Co., Ltd. (西安利君醫藥有限責任公司) ("Rejoy Medicine"), a company incorporated in the PRC and is held as to

55% by Rejoy Group, which in turn is a substantial shareholder of Xi'an Lijun, was one of the Group's five largest customers for the year ended 31 December 2004. Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. (利君百川醫藥化工有限公司) ("Rejoy Baichuan"), a company incorporated in the PRC and is held as to 84% by Rejoy Technology, which is wholly-owned by the beneficial shareholders of Prime United Industries Limited, one of the Controlling Shareholders, was one of the Group's five largest customers for the year ended 31 December 2004. Save for Liaoning Huabang, Rejoy Medicine and Rejoy Baichuan, none of the Directors, their respective associates or, so far as the Directors are aware of, Shareholders who owns more than 5% of the issued share capital of the Company or their respective associates has any interests in any of the five largest customers of the Group for each of the three years ended 31 December 2004 and the six months ended 30 June 2005. Please refer to the paragraph headed "Related party transactions and connected transactions" in the section headed "Business" in this prospectus for details of the connected transactions.

Credit control policy

The Group has adopted a policy for provision of impairment of receivables pursuant to which full provision will be made for aged balances that are overdue for more than three years. This policy was set up by the Group based on its experience in settlement patterns and recoverability of its debtors over time. The Group also reviews the collectibility of each trade and bills receivables balance individually and specific provision will be provided for individual trade and bills receivables balance even if its aging is within three years.

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the provision for impairment of receivables suffered by the Group amounted to approximately RMB4,380,000, RMB6,464,000, RMB1,404,000 and RMB992,000 respectively, representing approximately 7.2%, 9.2%, 1.6% and 2.6% respectively of the Group's profit attributable to equity holders of the Company.

For the three years ended 31 December 2004, the debtors' turnover periods of the Group (defined as average trade and bills receivables divided by sales times 365 days) were approximately 14 days, 18 days and 43 days respectively. For the six months ended 30 June 2005, the debtors' turnover periods of the Group defined as average trade receivables divided by sales times 180 days) were approximately 66 days. The "Notice on Strengthening Controls on Sale of Antibacterial Agents in Retail Pharmacy Stores" (the "Notice") was issued by SFDA on 24 October 2003 and became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians. Due to the impact of the Notice on the Group's sales performance as mentioned in the sub-paragraph headed "Sales" in the paragraph headed "Sales and marketing" in this section, the Group and its distributors have focused their sales efforts in relation to antibiotics on hospitals and clinics to encourage the use of the Group's antibiotics. The hospitals and clinics usually demanded longer credit terms. In turn, the Group granted longer credit terms to its distributors, which led to the increase in the turnover days of trade and bills receivables in the year 2004 and the six months ended 30 June 2005.

Payment terms

Payment for the Group's products by customers are primarily settled by cheques, letter of credits and bank transfers. The Group continually supervises the creditability of the customers, and most of the customers have to settle their payments within 90 days. The grant of which depends on the customers' creditworthiness with reference to its settlement history and length of business relationship. For those new customers, the Group will generally receive all the payments before the goods are delivered to its customers.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, approximately 97.1%, 96.5%, 96.8% and 98.0% of settlements of payment by customers were denominated in RMB respectively and the approximately 2.9%, 3.5%, 3.2% and 2.0% was denominated in US dollars respectively.

Marketing

The Group's products are principally sold to retail drug stores, hospital and clinics through distributors in the PRC. The Group will co-operate with its distributors to implement its marketing and promotion strategies. The sale of certain pharmaceutical products of the Group, such as antibiotics, requires medical prescription from doctors and accordingly, the marketing and promotion of such products may subject to certain legal restrictions. As such, the Group will consider, among others, the target customers and the type of products when formulating its marketing and promotion strategies.

As the sale of the prescription medicines require prescription from doctors at hospitals and clinics, the Directors consider that it is particular important to improve the awareness of the Group's products to doctors at hospitals and clinics. To achieve this, the Group invites medical experts to organise seminars and symposiums, these activities enable doctors to understand the medical efficacy, side effects, dosage and advantages of the Group's products. The Group has also advertised its prescription medicines in academic journals, hospitals and clinics. In addition, the Group's sales and marketing staff work together with the distributors to penetrate into medium, and small cities and rural areas and promote the brand awareness of the Group in the public.

For OTC medicines, as they are comparatively safer than prescription medicines, OTC medicines are subject to less stringent regulations. As such, the Group focuses on promoting OTC medicines to general public through advertising on different mass media like televisions, newspapers and advertisement boards.

The sales department of the Group is responsible for implementing sales and marketing plans and coordinating the sales offices and distributors. In addition, the sale and marketing staff of the Group is also responsible to explain, among others, the medical efficacy, side effects and advantages of the Group's products to its distributors as well as responsible for keeping abreast of the latest market development and collecting feedback from customers in relation to the Group's products. The Group's sales and marketing department will provide these market information to the research and development department and production department and accordingly, this will enable the Group to enhance the sustainable development of existing products and to identify potential new products.

During the Track Record Period, the Group has attended several pharmaceutical conferences and trade fairs such as the 50th National Medicine Trade Fair (第50屆全國藥品交易會), the 52nd National Medicine Trade Fair (第52屆全國藥品交易會), the 53rd National Medicine Trade Fair (第53屆全國藥品交易會), the 38th New Medicine Trade Fair (第38屆新特藥品交易會) and the 39th New Medicine Trade Fair (第39屆新特藥品交易會). Besides, the Group has organised some exhibitions or promotion counters to promote the public awareness of the Group's products. The Group has set up a strategic analysis department (策劃研究部) to carry on market research on the Group's products and formulate marketing policies.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the marketing and promotion expenses of the Group were approximately RMB192.8 million, RMB211.8 million, RMB163.5 million and RMB67.1 million respectively, representing approximately 75.7%, 81.2%, 74.1% and 65.3% respectively of the Group's total selling and distribution expenses.

RESEARCH AND DEVELOPMENT

The Group is committed to devoting considerable effort and resources in research and development so as to enable the Group to keep abreast of technology development in the pharmaceutical industry and to enhance its competitiveness. The Group focuses on improving the quality of its existing products and developing new products to meet continuous changing market demand.

The Group has established a research and development department which comprises of 62 employees as at the Latest Practicable Date. The Group's research and development department works closely with its production staff to ensure efficient cooperation in product improvement and development. The primary duties of the research and development department include:

- formulate research and development plans of the Group;
- collect market information and conduct research on new products;
- pre-clinical and clinical research of new products; and
- manage research staff.

In addition to its research and development department, the Group also cooperates with universities or research institutions, including Peking University (北京大學), General Hospital of PLA (解放軍總醫院), China-Japan Friendship Hospital (中日友好醫院), Xi'an Jiaotong University (西安交通大學), East China University of Science & Technology (華東理工大學), Sichuan University (四川大學) and Beijing Pureen Technology Company Limited (北京真綠天遠科技有限公司), to carry out certain research and development works. When the Group considers certain research and development results developed by the universities or research institutions are commercial viable for the production of new pharmaceutical products, the Group normally enters into technology know-how transfer agreements with such universities or research institutions pursuant to which the Group acquires the technology know-how including the production rights and the intellectual property rights from such universities or research institutions at an agreed consideration. The consideration paid or payable by the Group for acquisition of technology know-how was arrived at after arms' length negotiation between parties to the technology know-how transfer agreements and taking into account the cost incurred by the universities or research institutions, market potential of the new developed products, stage of development and the additional costs to be incurred by the Group in order to bring the research results into products that allows mass production.

The sources of the product formulae or production methods of the Group's existing pharmaceutical products include (i) injection by Rejoy Group from Shaanxi Xi'an Pharmaceutical Factory at the time of the Group's establishment, (ii) development by the Group itself or cooperation with research institutions or universities, which are Independent Third Parties, or (iii) acquisition from Independent Third Parties such as research institutions.

The table below sets out the source of the product formulae and production processes in which the Group has obtained production approvals as at 30 June 2005.

Source	**Number of products**
Injected by Rejoy Group	283
Developed by the Group	
– solely by itself	62
– co-operation with research institutions and universities *(Note)*	–
Acquired from Independent Third Parties	10
Total	355

Note: As at the Latest Practicable Date, the Group has been and is presently engaging in certain co-operation projects with research institutions and universities, but no product has been produced through such co-operation.

In respect of the 283 products or production formulae injected by Rejoy Group into Xi'an Lijun, they included antibiotics, other finished medicines and bulk pharmaceuticals.

The PRC legal adviser to the Company confirmed that the ownership of such product formulae and production methods injected by Rejoy Group into Xi'an Lijun were vested with Xi'an Lijun.

During the Track Record Period, the Group has acquired approximately 10 product formulae or production methods from Independent Third Parties. As at the Latest Practicable Date, the Group has made applications for patent for the following production processes and/or products, and their respective business applications and the products related are set out as follows:

Title of patent	**Business application and products related**
Sinomenine Hydrochloride Sprays and its preparation process	Such production process was acquired from Peking University (北京大學) will be applied by the Group for production of Zheng Qing Feng Tong Ning (Sinomenine) Spray (正清風痛寧噴霧劑), further information of which is disclosed under the sub-paragraph headed "Products under development" in this section).

Title of patent	Business application and products related
Silybin Emulsion Micro-particle Compounded by self-emulsion and its preparation process of Licorzine	Such production process was self-developed by the Group and will be applied for production of Silybin Emulsion Micro-particle Compound and the related product is still at the preliminary development stage.
A new kind of Monascus oral solution and its Preparation Process	Such production process was self-developed by the Group and will be applied for production of a new kind of Monascus oral solution (named Ling Zhi Hong Oral Solution (靈芝紅口服液), further information of which is disclosed under the sub-Paragraph headed "Products Under Development" in this section).

The aforesaid products and/or production processes for which the Group has made patent applications were either developed by the Group itself or acquired from Independent Third Parties such as research institutions. The intellectual property rights of such products and/or production methods are owned by the Group.

Save for the aforesaid product formulae and production methods for which applications for patent have been made by the Group, all of the Group's existing pharmaceutical products (product formulae and/or production methods) are non-patented in the PRC because they were mainly imitation of pharmaceutical products (including product formulae and/or production methods) developed by other pharmaceutical manufacturers, in particular those overseas pharmaceutical manufacturers, of which no patents for such products (including product formulae and/or production methods) have been registered in the PRC or patents in the PRC have been expired. As advised by the PRC legal adviser to the Company, as patents for such product formulae and/or production methods have not been granted in the PRC and no "administrative protection" has been granted in the PRC pursuant to "Regulations on Administrative Protection of Pharmaceuticals" (藥品行政保護條例), production of such products by the Group in the PRC does not infringe any applicable patent rules and regulations in the PRC. The Directors have confirmed that, as at the Latest Practicable Date: (i) the Group did not produce any products based on PRC-patented products (including product formulae and/or production methods) developed by other pharmaceutical manufacturers of which the patent period has not expired, (ii) the Group does not sell any products outside the PRC which incorporate the product formulae and/or production methods that are not protected by patent in the PRC but may be protected overseas, (iii) to the best knowledge of the Directors, all sales of the Group outside the PRC do not involve product formulae and/or production methods that are protected by patents in the countries where the Group's products are sold; (iv) to the best knowledge of the Directors, the Group has not received any indications, claims or complaints that the Group's production or use of any product formulae and/or production methods violated the patent rights of any third parties (both in the PRC and outside the PRC); and (v) to the best knowledge of the Directors, the Group has not been involved in any administrative or legal proceedings in respect of the same (both in the PRC and outside the PRC).

Most of Heng Xin Tang's existing Chinese medicines are not newly-developed products and they are mainly based on traditional production formulae or methods that do not qualify and/or fulfill the requirements for applying patents as stipulated by the State Intellectual Property Office of the PRC (國家知識產權局).

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the research and development expenses of the Group amounted to approximately RMB6,197,000, RMB7,505,000, RMB6,166,000 and RMB2,680,000 respectively. The research and development expenses mainly comprised staff costs for research and development department, depreciation charge for research and development equipment, trial production costs, testing expenses, reference books and materials, research fees payable to research institutions and other related miscellaneous expenses. Such expenses were charged to the Group's profit and loss account as "Administrative expenses".

Products under development

As at the Latest Practicable Date, the Group had approximately 36 products under active development. The Directors expect that, subject to the granting of new medicine certificates and production permits from SFDA, these new products can be launched in the PRC market.

Below is a summary of brief details of the major products currently under research and development:

Product name	Forms	Principal applications/major therapeutic effects	Research and development Progress	Sole Development/ Cooperation/ Acquisition of technology
Finished medicines				
Edaravone Injection (伊達拉奉注射液)	Liquid injection	Brian infarction	Clinical research	Acquisition from Chengdu Bo Rui R&D Company
Loratadin/Acetaminophen/Pseudoephedrin Sulfate Sustained-Release Tablet (氯酚偽麻緩釋片)	Tablets	Anti-flu	Clinical research	Acquisition from Sichuan Chinese Medicine University
Azithromycin capsule (阿奇霉素膠囊劑)	Capsules	Anti-infection	Clinical research	Sole development by the Group
Azithromycin for suspension (阿奇霉素干混懸劑)	Suspension	Anti-infection	Clinical research	Cooperation with Shenyang Christian Medical Science & Technology Co., Ltd.
Cefepime Hydrochloride for Injection (注射用鹽酸頭孢吡肟粉針)	Injection	Anti-infection	Clinical research	Acquisition from Shanghai Yong Xin Technical Trade Company

Product name	Forms	Principal applications/major therapeutic effects	Research and development Progress	Sole Development/ Cooperation/ Acquisition of technology
Bulk pharmaceuticals				
Edaravone Bulk Drug (伊達拉奉原料藥)	Bulk drug	Brain infarction	Pre-clinical research	Acquisition from Chengdu Bo Rui R&D Company
Chinese medicines				
Zheng Qing Feng Tong Ning (Sinomenine) Spray (正清風痛寧噴霧劑)	Spray	Arthritis	Pre-clinical research	Cooperation with Peking University
Zheng Qing Feng Tong Ning (Sinomenine) Plaster (正清風痛寧貼劑)	Plaster	Arthritis	Pre-clinical research	Cooperation with Peking University
Radix Bupleuri Soft Capsules (柴胡軟膠囊)	Capsules	Anti-inflammatory and anti-flu	Pre-clinical research	Cooperation with Beijing Zhen Lu Tian Yuan Technical Co., Ltd.
Silibinin Soft Capsules (水飛薊賓軟膠囊)	Soft Capsules	Hepatitis	Preliminary research	Cooperation with Peking University
Health care products				
Pai Qian Yi Zhi Chewable Tablets (排鉛蓋智咀嚼片)	Chewable Tablets	Improving memory	Pre-clinical research	Sole development by the Group
Propolis & Aloe Soft Capsules (利伊佳軟膠囊)	Soft Capsules	Upgrading immunization and whitening and removing speckles	Applying for registration	Sole development by the Group
L-Acidum Asparticum Calcium tablets (天門冬氨酸螯合鈣片劑)	Tablets	Supplement of calcium	Preliminary research	Sole development by the Group

The Group has followed and intends to follow the necessary registration procedures pursuant to the SFDA's requirements for its products under development. However, completion of registration procedures and obtaining Certificates of New Medicines from the SFDA depend on factors such as successful completion of clinical research and satisfaction from the SFDA for its examination. There is no assurance that the Group can obtain the Certificates of New Medicines from the SFDA and the registration of the same products applied by other pharmaceutical manufacturers which block the Group to apply for its registration within a certain fixed period.

INSURANCE

The Group maintains a number of insurance policies which cover the Group's production facilities, fixed assets and inventory against damage caused by accidents. The Directors consider that the Group's current insurance coverage over the production facilities, fixed assets and inventory is adequate. In accordance with applicable PRC rules and regulations, the Group has participated in social insurance plan (including basic retirement, basic medical benefits and unemployment benefits plan) for its employees.

Except for the above-mentioned insurance policies, the Group does not maintain any third-party insurance to cover any claim in relation to its products. The Directors believe that the Group can effectively control the product liability risks through stringent quality control over its operations. Also, the Directors believe that all of the Group's products have reached the quality standards promulgated by relevant authorities in the PRC and applied necessary approvals and permits for production. Moreover, during the Track Record Period, and up to the Latest Practicable Date, the Group had not received any material claims or complaints from customers for the Group's products and no material claim has been filed against the Group for damages caused by its products.

As at the Latest Practicable Date, most of the Group's products were distributed and sold in the PRC except bulk pharmaceuticals which were mainly exported overseas. For the Track Record Period, none of the members of the Group has maintained any product liability insurance.

WORKPLACE SAFETY

The Group has established a safety department that is responsible for monitoring the safety compliance of production, labour and hygiene condition of the Group's business. With a view to achieving safe production, the Group has developed a set of safety rules based on government regulations requiring all employees to follow these rules. The Group also provides workplace safety education to employees and defines the responsibilities of each department for compliance with the safety rules. Internal safety inspections are carried out at regular intervals at all stages of production process to improve the working environment and minimize the possibility of work-related accidents and injuries.

In accordance with the "Safety Regulations on Managing Dangerous Chemicals" (化學危險物品安全管理條例) and the "Chemicals Safety Convention" (化學品安全公約), the Group has registered with the Dangerous Chemicals Registration and Administration Office of Shaanxi Province (陝西省危險化學品登記註冊管理辦公室) and obtained the Dangerous Chemicals Registration Certificate of Shaanxi Province (陝西省危險化學品登記註冊證書).

ENVIRONMENTAL PROTECTION

The Group needs to ensure its production is in compliance with the environmental protection laws and regulations issued by the State, provincial and local governments of the PRC.

The Group's base of production is situated in Xi'an and Weinan, Shaanxi Province, the PRC. The production process of the Group involves the release of industrial waste, sewage and exhaust fumes. The Group's environmental protection centre is responsible for the compliance of the environmental protection laws and regulations of the PRC. During the Track Record Period and up to the Latest Practicable Date, the Group has carried out regular repair and maintenance of its production facilities for the purpose of ensuring that the production processes comply with applicable environmental protection laws and regulations. The Group's environment protection centre is also responsible for formulating the environmental protection policies and action plans of the Group, monitoring pollutants treatment and cleaning work and performing investigation on environmental protection. The Group was awarded the Certificate for a Cleaner Production Enterprise (企業清潔生產評定證書) and the Renewed Certificate for a Cleaner Production Enterprise Model (清潔生產示範企業復審合格證書) by Shaanxi Provincial Cleaner Production Guide Centre (陝西省清潔主產指導中心) for the Group's fulfillment of the clean production requirement.

Based on the confirmation issued by the relevant government authority and as advised by the PRC legal adviser to the Company, the Directors concluded that the Group's production base established in the PRC has complied with all applicable laws, regulations and requirements in the PRC in relation to environment protection and has not violated any environmental protection laws or regulations of the PRC during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

The Group is the current owner of a number of trademarks including the trademark Lijun and has applied for registration of some other trademarks in the PRC. The Group has obtained trademark registration for each of the trademarks used for the pharmaceutical products. Details of the intellectual property rights of the Group are set out in the paragraph headed "Intellectual property rights" under the section headed "Further information about the business" in Appendix V to this prospectus.

The Group has applied for patents for certain production methods and/or products of the Group in the PRC, details of which are set out in the paragraph headed "Research and Development" in this section. The Group is also the owner of certain patents for registered design in the PRC. Details of the patents of the Group are set out in the paragraph headed "Intellectual property rights" under the section headed "Further information about the business" in Appendix V to this prospectus.

The Directors confirm that during the Track Record Period, the Group was not exposed to any infringement claims and did not experience any counterfeiting of its products in the PRC.

COMPETITION

Competition in the pharmaceutical industry in the PRC is intense and the Group faces intense competition from players including state-owned enterprises and foreign investment enterprises. Direct competition comes from pharmaceutical manufacturers producing the same type of pharmaceuticals while indirect competition comes from pharmaceutical manufacturers producing products having similar medical efficacy as substitutes. The Group's competitors vary by products. Set out below are details of the competition which the Group encounters in respect of its five major pharmaceutical products.

(1) ***Lijunsha (erythromycin ethylsucinnate)*** – it accounted for approximately 61.8%, 59.1%, 54.2% and 47.0% of the Group's total sales respectively for the three years ended 31 December 2004 and the six months ended 30 June 2005. According to a research report by Orient Health e-Commerce (Beijing) Ltd (東方健康電子商務(北京)有限公司) ("Orient"), there were about 491 pharmaceutical companies in the PRC who had production licenses of erythromycin ethylsucinnate, and the top 10 manufactures of erythromycin ethylsucinnate accounted for approximately 95% of the consumption amount of erythromycin ethylsucinnate in sample hospitals in 16 cities in the PRC in 2003. The Group was ranked the top among these manufacturers.

(2) ***Erythromycin tablets*** – it accounted for approximately 6.9%, 7.3%, 5.8% and 6.6% of the Group's total sales respectively for the three years ended 31 December 2004 and the six months ended 30 June 2005. To the best knowledge of the Directors, the market for the erythromycin tablets is scattered and diverse and there are no formal published statistics to show the business and operating environment including the competition of the erythromycin tablets market. However, the Directors consider that the market players for erythromycin tablets are those small to medium size companies and no major market players dominate the market in the PRC.

(3) ***Paiqi (azithromycin)*** – it accounted for approximately 2.8%, 6.0%, 8.0% and 10.1% of the Group's total sales respectively for the three years ended 31 December 2004 and the six months ended 30 June 2005. According to the aforesaid report of Orient, there were about 147 pharmaceutical companies who had production licenses of azithromycin, and the top 10 manufactures of azithromycin accounted for approximately 71% of the consumption amount of azithromycin in sample hospitals in 16 cities in the PRC in 2003. The Group was not among these top 10 manufacturers.

(4) ***Limaixian (clarithromycin)*** – it accounted for approximately 2.7%, 2.7%, 1.4% and 2.0% of the Group's total sales respectively for the three years ended 31 December 2004 and the six months ended 30 June 2005. According to the aforesaid report of Orient, which was based on the Database of the Use of Medicines of Randomly Selected Hospitals in 16 cities (the Medical and Pharmaceutical Technology Centre of the PRC), there were about 123 pharmaceutical companies who had production licenses of clarithromycin, and the top 10 manufactures of clarithromycin accounted for approximately 84% of the consumption amount of clarithromycin in sample hospitals in 16 cities in the PRC in 2003. The Group was one of the top 10 manufacturers.

(5) ***Cephalosporins (mainly include Lijunpaitong, Lijunpaishu and other cephalosporins)*** – it accounted for approximately 2.7%, 3.5%, 5.9% and 6.5% of the Group's total sales respectively for the three years ended 31 December 2004 and the six months ended 30 June 2005. According to 中國藥網 (China Pharmaceutical Web), there are about 62 pharmaceutical companies which produce cefoperazone sodium and sulbactam sodium, and the top 3 manufactures accounted for approximately 60% of the market share of cefoperazone sodium and sulbactam sodium in the PRC in 2003. The Group was not among these top 3 manufacturers.

Although competition in the pharmaceutical industry in the PRC is intense, the Directors are of the view that the Group has competitive advantages, including but not limited to strong brand recognition, extensive distribution network and reliable product quality over its competitors in the PRC so that the Group is able to maintain its competitiveness, which can be broadly considered as the principal strengths of the Group. Details of such principal strengths of the Group are set out in the paragraphed headed "Principal strengths of the Group" below.

Save as disclosed in the paragraph headed "Intellectual property rights" in Appendix V to the Prospectus, all of the Group's products are not patented in the PRC, the Directors believe that same products produced by the Group's major competitors in the PRC are also not patented in the PRC with respect to their products or product formulae for the reasons that such products and the respective product formulae do not qualify and/or fulfill the requirements for patent applications as stipulated by the State Intellectual Property Office of the PRC.

The Directors believe that there would be numerous pharmaceutical manufacturers in the PRC that are unable to comply with the GMP would be phasing out as a result of the adoption of the GMP certification system in the PRC, under which all pharmaceutical manufacturing enterprises in the PRC were required to comply by 30 June 2004. In addition, the Directors consider that certain factors including but not limited to (i) significant capital investment and expenditure for establishment and maintenance of production facilities for full compliance of the GMP, (ii) research and development capability to keep up with the rapid changes in the technology; (iii) expertise and knowhow in operating pharmaceutical manufacturing business, and (iv) extensive distribution network for sale of the products, may pose entry barriers to new entrants.

After the PRC's admission to the WTO in 2001, the Group may also face competition from foreign manufacturers. Subsequent to the reduction of import tariff, the selling prices of imported pharmaceuticals will become more competitive in the PRC market. Also, foreign pharmaceutical manufacturers may set up domestic production bases in the PRC leading to direct competition. The Directors anticipate that huge gaps exist between PRC pharmaceutical manufacturers and foreign manufacturers on several areas, namely capital, expertise, innovation, patents, product quality, research quality, marketing and management skills. PRC pharmaceutical manufacturers have to improve their overall strengths and competitive advantages. Taking into consideration of competitive prices, lower production costs and high quality products, the Directors consider that the Group has competitive advantages over its overseas competitors. For further details of the risks relating to competition, please refer to the paragraphs headed" Product substitution", "Competition" and "the PRC entry to the WTO" in the section headed "Risk factors" in this prospectus.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider that the success of the Group is primarily attributable to the following factors:

- **Strong brand recognition**

  Since the establishment of the Group, it has developed a wide range of pharmaceutical products. The Directors consider that most of the Group's products have established solid reputation in the pharmaceutical market in the PRC. Lijunsha, being one of the major pharmaceutical products of the Group, was awarded "Well-known Trademark" (馳名商標) and "Ten Most Favored Brands Elected by the Public" (十大公眾最喜愛商標) in the PRC. The Directors consider that the strong brand reputation of the Group provides it with a firm foothold for any future business expansion.

- **Extensive distribution network**

  The Group's products including finished medicines and Chinese medicines are primarily sold to its appointed distributors in the PRC. The Group intends to sell its health care products to its appointed distributors in the PRC. As at the Latest Practicable Date, the Group maintained business relationships with approximately 404 major distributors in the PRC covering approximately 25 provinces or autonomous regions and four centrally administrative municipalities. The Directors believe that such established distribution network of the Group would provide a solid foundation for the Group to expand its business operations.

- **Established long-term business relationships with key suppliers**

  The Group has developed long-term relationships with its major suppliers. The Directors believe that such established long-term relationships will secure the Group with constant supply of reliable quality of raw materials at a reasonable price.

- **Technology knowhow and research capability**

  The Group's management realises the importance of research and development in respect of the Group's business and accordingly, they are committed to devoting human and financial resources to research and development so as to maintain the market competitiveness of the Group's products. The Group has an in-house research and development team comprising of experts who are specialised in the area of chemical and pharmaceutical technology. In addition, the Group has entered into co-operation agreements with Peking University (北京大學), General Hospital of PLA (解放軍總醫院), China-Japan Friendship Hospital (中日友好醫院), Xi'an Jiaotong University (西安交通大學), East China University of Science & Technology (華東理工大學), Sichuan University (四川大學) and Beijing Pureen Technology Co., Ltd. (北京真綠天遠科技有限公司) with the aims to develop new products. Leveraging on the Group's technology knowhow and the support from the universities and research instituties, the Directors believe that the Group has the capability to develop new pharmaceutical products with high growth and profit margin in the future.

- **Experienced management team**

  The Directors consider that the Group's senior management team has in-depth knowledge of and extensive experience in the pharmaceutical industry. The Directors believe that the experience of the Group's senior management enables the Group to formulate flexible business strategies in order to maintain the competitiveness of the Group in the competitive pharmaceutical industry in the PRC. In addition, there are certain similarities in the business operations of pharmaceutical products and Chinese medicines including but not limited to (i) management techniques and philosophy; (ii) business and operation model; (iii) compliance requirements under the GMP; (iv) research and development procedures; (v) stock control and logistics system; (vi) procedures in relation to application of approval of new medicines; (vii) quality control requirements and standards; (viii) sales and marketing activities and channels; and (ix) quality control monitoring procedures. As such, the Directors believe that the Directors' extensive experience in the pharmaceutical industry can be applied in the development of Chinese medicines.

- **Diversified product range**

  The Group has developed and maintained a wide and diversified product range including pharmaceutical products, bulk pharmaceuticals, Chinese medicines and health care products. The Directors are of the view that the wide and diversified range of the Group's products can minimize and reduce the reliance on a single product or specific products and accordingly, minimize the business risks.

- **GMP certification**

  Xi'an Lijun and Heng Xin Tang have obtained all GMP certification required under PRC laws and regulations for the commencement and continuation of the production of their products, details of which are set out in the paragraphs headed "Production" in this section The accreditation of GMP certification indicates that the Group's pharmaceutical products have achieved certain standards and quality which are recognised by the PRC government. The Directors consider that pharmaceutical market may consolidate as a result of the elimination of those small or medium scale pharmaceutical manufacturers in the PRC who fail to obtain the GMP certification in the PRC. The Directors believe that the Group may benefit from the expected decrease in competition.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of discontinued related party transactions

During the Track Record Period, the Group entered into the following related party transactions which were discontinued prior to the Listing:

1. *Provision of equipments management services by Shaanxi Xi'an Pharmaceutical Factory (陝西省西安製藥廠) to Xi'an Lijun*

   In the period from 1 January 2002 to 31 December 2004, Shaanxi Xi'an Pharmaceutical Factory, the equity interest of which is wholly-owned by Rejoy Group, a substantial shareholder of Xi'an Lijun, provided management and maintenance services to Xi'an Lijun in respect of cooling systems, fire systems and a bathing centre of Xi'an Lijun. As certain equipments managed under the above arrangement formed the energy system or its associated operations of Xi'an Lijun, and the principal business of Shaanxi Xi'an Pharmaceutical Factory is the provision of utilities such as water and electricity and other related services, Xi'an Lijun entered into such arrangement with Shaanxi Xi'an Pharmaceutical Factory for the reason of convenience. The service fees paid by Xi'an Lijun to Shaanxi Xi'an Pharmaceutical Factory for each of the three years ended 31 December 2004 were approximately RMB280,000, RMB280,000 and RMB280,000 respectively. Xi'an Lijun ceased to engage Shaanxi Xi'an Pharmaceutical Factory to provide the aforesaid asset management services from 1 January 2005 and such equipment has been managed by Xi'an Lijun itself from the same date.

2. *Provision of building construction services by Xiyao Construction and Installation Co., Ltd. (西安西藥建築安裝工程公司) ("Xiyao Construction") to Xi'an Lijun*

During the Track Record Period, Xiyao Construction provided building construction services (including construction, maintenance and repairment) to Xi'an Lijun. Xi'an Lijun entered into the above arrangement for the purpose of repair and maintenance of its premises, and construction of small-scale factory premises. Xiyao Construction had been a wholly-owned subsidiary of Shaanxi Xi'an Pharmaceutical Factory, which in turn is wholly owned by Rejoy Group. The principal business of Xiyao Construction is construction work, and installation and repair of medical equipment. Following the transfer of equity interests in December 2004, Xiyao Construction became owned as to 29.7% by Rejoy Group and 70.3% by other individuals who are Independent Third Parties. Accordingly, Xiyao Construction was no longer a connected person of the Company under the Listing Rules. For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total payment paid by Xi'an Lijun to Xiyao Construction amounted to approximately RMB12,881,000, RMB6,851,000, RMB7,403,000 and RMB1,650,000 respectively.

3. *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 and Rejoy Group, as a substantial shareholder of Xi'an Lijun (the main operating subsidiary of the Company) prior to the Reorganisation, was required by the relevant bank to act as the guarantor. Therefore the reason for Rejoy Group in providing the above guarantee was to facilitate the borrowing of loan for Xi'an Lijun from the bank. As the above bank loan has been fully repaid, the corporate guarantee provided by Rejoy Group was released.

4. *Advance and provision of bank guarantee to Xi'an Rejoy Real Estate Co., Ltd. (西安利君置業有限公司) ("Rejoy Real Estate") and disposal of equity interest in Rejoy Real Estate by Xi'an Lijun to Rejoy Technology*

Pursuant to the sale and purchase agreement entered into between Xi'an Lijun and Rejoy Technology on 24 December 2004, Xi'an Lijun disposed of 30% equity interest in Rejoy Real Estate to Rejoy Technology at a consideration of RMB2,400,000 which was determined by Xi'an Lijun based on the share capital of Rejoy Real Estate and was equal to the original investment cost that Xi'an Lijun originally acquired Rejoy Real Estate. The principal business of Rejoy Real Estate is property sales, development and management in the PRC. The issued share capital of Rejoy Technology is held as to 100% by the beneficial shareholders of Prime United Industries Limited, one of the Controlling Shareholders. The reason for Xi'an Lijun in disposing the equity interest in Rejoy Real Estate is that Xi'an Lijun decided to focus on its business and devote all its resources in pharmaceutical industry, and accordingly ceased its real estate business. The principal business of Rejoy Technology is investment holding.

5. *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")*

To satisfy its raw material needs, the Group purchased raw materials including erythromycin from Zhenjiang Pharmaceutical on an ongoing basis during the Track Record Period. Such materials are essential components for the production of erythromycin ethylsuccinate. For the three years ended 31 December 2004 and the six months ended 30 June 2005, the total amount paid by the Group to Zhenjiang Pharmaceutical for the purchase of raw materials amounted to approximately RMB36,816,000, RMB31,096,000, RMB11,900,000 and RMB5,143,000 respectively.

The principal business of Zhenjiang Pharmaceutical is the sale and production of bulk pharmaceuticals such as erythromycin, erythromycin estolate and erythromycin ethylsuccimate. Zhenjiang Pharmaceutical is a company incorporated in the PRC and is presently held as to 51% by Rejoy Group, a substantial shareholder of Xi'an Lijun. Accordingly, Zhenjiang Pharmaceutical is a connected person of the Company under the Listing Rules. In this respect, it is to be noted that Rejoy Group has on 26 September 2005 entered into an agreement to dispose of its 51% equity interest in Zhenjiang Pharmaceutical to an Independent Third Party, with such transfer to be completed in or about December 2005, upon which

Zhenjiang Pharmaceutical will no longer be a connected person of the Company. In view of the entering into of the said equity transfer agreement and the contemplated change in shareholders and management of Zhenjiang Pharmaceutical, the Directors decided to cease to purchase raw materials from Zhenjiang Pharmaceutical and that the Group would not continue to purchase raw materials from Zhenjiang Pharmaceutical after the Listing.

Details of continuing connected transactions

The following transactions have occurred between members of the Group and connected persons of the Company and are expected to be carried out on a continuing or recurring basis for a period of time after the Listing.

Exempt continuing connected transactions

1. *Lease of office premises by Xi'an Lijun to Rejoy Group*

During the Track Record Period, Rejoy Group leased from Xi'an Lijun the office premises with a gross floor area of approximately 1,178 sq.m. situated at the 4th floor of North Wing Office Building, Rejoy Plaza, Xi'an, the PRC and paid an annual rental of RMB200,000 to Xi'an Lijun. On 16 October, 2005, Rejoy Group entered into a property leasing agreement with Xi'an Lijun in respect of the aforesaid office premises for a term of 3 years commencing from 1 January 2005 and ending on 31 December 2007, renewable upon agreement by both parties. The annual rental payable is RMB200,000 (subject to annual adjustments to be agreed by the parties). All rents are payable on the fifteenth day of each month.

Sallmanns (Far East) Limited, an independent valuer, has confirmed that the rent payable under the said lease agreement is fair and reasonable and reflects the prevailing market rates.

The office premises leased by Rejoy Group from Xi'an Lijun is for the office use of Rejoy Group.

2. *Purchase of packaging materials from Xi'an Rejoy Packaging Materials Co., Ltd. (西安利君包裝材料有限責任公司) ("Rejoy Packaging")*

Xi'an Lijun purchases packaging materials from Rejoy Packaging on an ongoing basis. For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total amounts paid by the Group to Rejoy Packaging for the purchase of raw materials amounted to approximately RMB728,000, RMB538,000, RMB674,000 and RMB496,000 respectively.

Rejoy Packaging is a company incorporated in the PRC and is held as to 56.1% by Rejoy Technology, the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United Industries Limited, one of the Controlling Shareholders. Accordingly, Rejoy Packaging is a connected person of the Company under the Listing Rules.

The Directors have confirmed that the transaction is on normal commercial terms and conducted in the ordinary and usual course of business of the Group, the purchase prices of packaging materials from Rejoy Packaging are determined in accordance with market prices and terms, and Xi'an Lijun pays Rejoy Packaging for the packaging materials at prices no less favourable than those paid to Independent Third Parties and on terms no less favourable than those the Group can obtain from other comparable Independent Third Parties.

Xi'an Lijun purchases the packaging materials from Rejoy Packaging for the packaging of its products. The principal business of Rejoy Packaging is the sale and production of packaging materials for pharmaceutical products.

The Directors estimate that the payments to be made by the Group to Rejoy Packaging for purchase of packaging materials will not exceed RMB1,000,000 per year.

3. *Purchase of raw materials from 西安利君百川醫藥化工有限公司 (Xi'an Rejoy Baichuan Medicines Chemical Engineering Company Limited) ("Rejoy Baichuan")*

The Group purchases raw materials including erythromycin thiocyanate erythromycin and glacial acetic acid from Rejoy Baichuan on an ongoing basis to satisfy its raw material needs. The principal business of Rejoy Baichuan is the retail and distribution of pharmaceutical products and chemicals. For the three years ended 31 December 2004 and the six months ended 30 June 2005, the total amount paid by the Group to Rejoy Baichuan for the purchases of raw materials amounted to approximately RMB133,000, RMB2,113,000, RMB6,816,000 and RMB60,000 respectively.

Rejoy Baichuan is a company incorporated in the PRC and its interest 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 Industries Limited, one of the Controlling Shareholders. Accordingly, Rejoy Baichuan is a connected person of the Company under the Listing Rules.

The Directors have confirmed that the transaction is on normal commercial terms and conducted in the ordinary and usual course of business of the Group, the purchase prices of raw materials from Rejoy Baichuan have been determined in accordance with the market prices and terms, and that the Group has paid to Rejoy Baichuan for the raw materials at prices no less favourable than those paid to Independent Third Parties and on terms no less favourable than those the Group can obtain from other comparable Independent Third parties.

The Directors estimate that the payments to be made by the Group to Rejoy Baichuan for purchase of raw materials will not exceed RMB1,000,000 per year.

Non-exempt continuing connected transactions

4. *Lease of land-use rights by Xi'an Lijun from Rejoy Group*

During the Track Record Period, Xi'an Lijun leased land-use rights from Rejoy Group. Particulars of the areas of leased land are set out in the property valuation report in Appendix III to this prospectus. The total areas of the leased land amount to approximately 113,768 square metres and the rent paid by Xi'an Lijun was at RMB5 per square metre per month for the three years ended 31 December 2004 and at RMB4 per square metre per month for the six months ended 30 June 2005. The total rents paid by the Group to Rejoy Group amounted to RMB6,826,080 per annum for each of the three years ended 31 December 2004 and approximately RMB2,730,000 for the six months ended 30 June 2005. In respect of the aforesaid land-use rights, Xi'an Lijun entered into a lease of land-use rights agreement (the "Land-Use Rights Agreement") with Rejoy Group on 16 October 2005 for a term commencing from 1 July 2005 and ending on 31 December 2007, renewable upon agreement by both parties. The rent that would be paid by Xi'an Lijun under the Land-Use Rights Agreement is at RMB4 per square metre per month (equivalent to a total rent of RMB5,460,864 per annum and this amount represents the maximum aggregate annual amount payable under this transaction for each of the three years ending 31 December 2007). All rents are payable on the fifteenth day of each following month.

Sallmanns (Far East) Limited, an independent valuer, has confirmed that the rent payable for these land-use rights under the Land-Use Rights Agreement is fair and reasonable and reflects the prevailing market rates.

The Group entered into the Land-Use Rights Agreement because the production plants, storage, office buildings of Xi'an Lijun are located on the relevant land.

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

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

On 16 October, 2005, a supply agreement was entered into between Xi'an Lijun and Global Printing ("Agreement for Supply of Packaging Materials") for an initial term of 3 years commencing from 1 January 2005 and ending on 31 December 2007 and may be renewable upon further agreement by the parties. Under the agreement, Xi'an Lijun shall make payment to Global Printing in full within 30 days after delivery of the packaging materials from Global Printing to Xi'an Lijun.

Global Printing is a company incorporated in the PRC and is held as to 45% by SPC, which also holds all the interests in Rejoy Group. Particulars of the background of SPC are set out under the paragraph headed "Relationship with Rejoy Group, the Controlling Shareholders and their respective associates" in this section of this prospectus. Accordingly, Global Printing is a connected person of the Company under the Listing Rules.

The Directors confirm that the purchase prices of packaging materials from Global Printing have been determined in accordance with the market prices and on normal commercial terms, and that the Group has paid to Global Printing for the packaging materials at prices no less favourable than those paid to Independent Third Parties and on terms no less favourable than those the Group can obtain from Independent Third Parties.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the total amount paid by the Group to Global Printing for the purchase of packaging materials amounted to approximately RMB8,578,000, RMB9,243,000, RMB6,854,000 and RMB4,057,000 respectively. The estimated maximum aggregate amounts of payments to be made to Global Printing for the packaging materials are approximately RMB8,500,000, RMB9,000,000 and RMB9,500,000 for the three years ending 31 December 2007, respectively. These estimates were determined with reference to the Group's historical purchase amounts from Global Printing for the Track Record Period and the estimated growth in the Group's total sales for the three years ending 31 December 2007.

6. *Provision of utilities such as electricity, water, steam, cooling salt water and compressed air by Shaanxi Xi'an Pharmaceutical Factory*

During the Track Record Period, Shaanxi Xi'an Pharmaceutical Factory supplied utilities including electricity, water, steam, cooling salt water and compressed air to Xi'an Lijun. On 16 October 2005, Xi'an Lijun entered into an utilities services agreement with Shaanxi Xi'an Pharmaceutical Factory pursuant to which Shaanxi Xi'an Pharmaceutical Factory agreed to supply 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, renewable upon the agreement by the parties. The charges for electricity and water payable by Xi'an Lijun to Shaanxi Xi'an Pharmaceutical Factory are calculated based on the state-prescribed prices (tax inclusive) plus actual processing costs of Shaanxi Xi'an Pharmaceutical Factory. In respect of steam, cooling salt water and compressed air, such charges are determined based on actual costs of production incurred by Shaanxi Xi'an Pharmaceutical Factory. The reason for the Group entering into the above agreement is to satisfy the needs of Xi'an Lijun in respect of its production, office and storage.

Shaanxi Xi'an Pharmaceutical Factory is a company incorporated in the PRC and is a wholly-owned subsidiary of Rejoy Group, a substantial shareholder of Xi'an Lijun. Accordingly, Shaanxi Xi'an Pharmaceutical Factory is a connected person of the Company under the Listing Rules.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the total amounts paid by the Group to Shaanxi Xi'an Pharmaceutical Factory in respect of supply of utilities amounted to approximately RMB39,535,000, RMB45,891,000, RMB41,603,000 and RMB23,217,000 respectively. The estimated maximum aggregate amounts of payments to be made by the Group to Shaanxi Xi'an Pharmaceutical Factory for the supply of utilities are approximately RMB55,000,000, RMB60,500,000 and RMB66,550,000 for the three years ending 31 December 2007, respectively. These estimates were made on the basis of the Group's historical consumption of utilities for the Track Record Period and the expected increase in the prices of utilities for years 2005 to 2007.

7. *Sharing of administrative costs between Xi'an Lijun and Shaanxi Xi'an Pharmaceutical Factory*

During the Track Record Period, Xi'an Lijun shared the administrative costs of Shaanxi Xi'an Pharmaceutical 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 Shaanxi Xi'an Pharmaceutical Factory. On 16

October 2005, Xi'an Lijun entered into an agreement with Shaanxi Xi'an Pharmaceutical Factory pursuant to which Xi'an Lijun agreed to share the administrative costs of Shaanxi Xi'an Pharmaceutical Factory so that the employees of Xi'an Lijun would continue to be able to enjoy the aforesaid facilities and services provided by Shaanxi Xi'an Pharmaceutical Factory for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The total amount of administrative costs is 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 is determined with reference to the actual number of employees of Xi'an Lijun utilizing such facilities and services.

Shaanxi Xi'an Pharmaceutical Factory is a company incorporated in the PRC and is a wholly-owned subsidiary of Rejoy Group, a substantial shareholder of Xi'an Lijun. Accordingly, Shaanxi Xi'an Pharmaceutical Factory is a connected person of the Company under the Listing Rules.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the total amounts paid by Xi'an Lijun to Shaanxi Xi'an Pharmaceutical Factory in respect of the administrative costs amounted to approximately RMB15,831,000, RMB13,431,000, RMB13,105,000 and RMB6,341,000 respectively. The estimated maximum aggregate amount of payment to be made by Xi'an Lijun to Shaanxi Xi'an Pharmaceutical Factory for the administrative costs is approximately RMB13,000,000 per annum for the three years ending 31 December 2007. This estimate was made based on the historical administrative costs shared by Xi'an Lijun.

8. *Distribution of the Group's products* by *Xi'an Rejoy Medicine Co., Ltd. (西安利君醫藥有限責任公司) ("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. During the Track Record Period, Xi'an Lijun entered into a purchase and distribution agreement with Rejoy Medicine annually for distributing its products. Pursuant to such purchase and distribution agreements, Rejoy Medicine purchased products from Xi'an Lijun and distributed such products to other distributors and end customers. On 16 October 2005, Xi'an Lijun entered into a purchase and distribution agreement with Rejoy Medicine pursuant to which Xi'an Lijun agreed to sell and Rejoy Medicine agreed to purchase and distribute products of Xi'an Lijun for a term of three years commencing from 1 January 2005 and ending on 31 December 2007, renewable upon the agreement by the parties.

Rejoy Medicine is a company incorporated in the PRC and is held as to 55% by Rejoy Group, a substantial shareholder of Xi'an Lijun. Accordingly, Rejoy Medicine is a connected person of the Company under the Listing Rules.

The Directors confirm that the selling prices of the Group's products sold to Rejoy Medicine have been determined in accordance with the market prices and terms and that the Group charges Rejoy Medicine for the products at prices no less favourable than those charged to Independent Third Parties and on terms no less favorable than those the Group can obtain from Independent Third Parties.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group's sale to Rejoy Medicine amounted to approximately RMB11,052,000, RMB14,291,000, RMB26,663,000 and RMB8,403,000 respectively. The estimated maximum aggregate amounts of consideration for products sold by the Group to Rejoy Medicine are approximately RMB27,000,000, RMB27,800,000 and RMB28,500,000 for the three years ending 31 December 2007, respectively. These estimates were made on the basis of the Group's historical revenue generated from Rejoy Medicine during the Track Record Period and the estimated growth in the Group's total sales for the three years ending 31 December 2007.

9. Distribution of the Group's products by 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. During the Track Record Period, Xi'an Lijun entered into a purchase and distribution agreement with Rejoy Baichuan annually for distributing its products. Pursuant to such purchase and distribution agreements, Rejoy Baichuan purchased products from Xi'an Lijun and distributed such products to other distributors and end customers. On 16 October 2005, Xi'an Lijun entered into a purchase and distribution agreement with Rejoy Baichuan pursuant to which Xi'an Lijun agreed to sell and Rejoy Baichuan agreed to purchase and distribute products of Xi'an Lijun for a term of three years commencing from 1 January 2005 and ending on 31 December 2007, renewable upon the agreement by the parties.

Rejoy Baichuan is a company incorporated in the PRC and 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 Industries Limited, one of the Controlling Shareholders. Accordingly, Rejoy Baichuan is a connected person of the Company under the Listing Rules.

The Directors confirm that the selling prices of the Group's products sold to Rejoy Baichuan have been determined in accordance with the market prices and that the Group charges Rejoy Baichuan for the products at prices no less favourable than those charged to Independent Third Parties and on terms no less favorable than those the Group can obtain from Independent Third Parties.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the revenue generated by the Group from Rejoy Baichuan amounted to approximately RMB58,000, RMB410,000, RMB27,079,000 and RMB5,250,000 respectively. The substantial increase in sales to Rejoy Baichuan from RMB410,000 for the year ended 31 December 2003 to RMB27,079,000 for the year ended 31 December 2004 was mainly due to the general increase in sales in Xi'an, where Rejoy Baichuan operates, and replacement of some distributors by Rejoy Baichuan. The estimated maximum aggregate amounts of consideration for products sold by the Group to Rejoy Baichuan are approximately RMB24,000,000, RMB24,800,000 and RMB25,500,000 for the three years ending 31 December 2007, respectively. These estimates were made on the basis of the historical revenue generated from Rejoy Baichuan during the Track Record Period and the estimated growth in the Group's total sales for the three years ending 31 December 2007.

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

Liaoning Huabang 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. During the Track Record Period, Xi'an Lijun entered into a purchase and distribution agreement with Liaoning Huabang annually for distributing its products. Pursuant to such purchase and distribution agreements, Liaoning Huabang purchased products from Xi'an Lijun and distributed such products to other distributors and end customers. On 16 October 2005, Xi'an Lijun entered into a purchase and distribution agreement with Liaoning Huabang pursuant to which Xi'an Lijun agreed to sell and Liaoning Huabang agreed to purchase and distribute products of Xi'an Lijun for a term of three years commencing from 1 January 2005 and ending on 31 December 2007, renewable upon the agreement by the parties.

Liaoning Huabang is a company incorporated in the PRC, the registered capital of which is held as to 100% by the beneficial shareholders of Bondwide Trading Limited, one of the Controlling Shareholders. Accordingly, Liaoning Huabang is a connected person of the Company under the Listing Rules.

The Directors confirm that the selling prices of the Group's products sold to Liaoning Huabang have been determined in accordance with the market prices and that the Group charges for the products at prices no less favourable than those charged to Independent Third Parties and on terms no less favorable than those the Group can obtain from Independent Third Parties.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the revenue generated by the Group from sale of products to Liaoning Huabang amounted to approximately RMB29,834,000, RMB19,453,000, RMB5,953,000 and RMB3,369,000 respectively. The estimated maximum aggregate amounts of consideration for products sold by the Group to Liaoning Huabang are approximately RMB11,000,000, RMB11,000,000 and RMB11,000,000 for the three years ending 31 December 2007, respectively. These estimates were made on the basis of the historical revenue generated from Liaoning Huabang during the Track Record Period and the expected decrease in the sale of the Group's products to Liaoning Huabang for the reason that, to the best knowledge of the Directors, Liaoning Huabang has reformed its business to include the manufacturing and sale of oxfloxacin injection, which is a type of antibiotics not currently produced by the Group, rather than being a sole pharmaceutical distributor. In light of the change in its business model and relocation of its resources, it is expected that the distribution power of Liaoning Huabang may be weakened and accordingly, sale of pharmaceutical products to Liaoning Huabang is expected to decrease.

Save for the balances with Rejoy Medicine, Rejoy Baichuan, Liaoning Huabang, Shaanxi Xi'an Pharmaceutical Factory, Rejoy Group and Global Printing which have entered and will continue to enter into connected transactions with the Group, all other related party balances have been fully settled as at the Latest Practicable Date.

Waivers from the Stock Exchange

No waivers have been applied for the continuing connected transactions numbered 1 to 3 because these transactions are on normal commercial terms and conducted in the ordinary course of business. As the percentage ratios (other than the profits ratio) calculated by reference to Rule 14.07 of the Listing Rules, where applicable, for each of these continuing connected transactions are on an annual basis either less than 0.1% or equal to or more than 0.1% but less than 2.5% and the annual consideration is less than HK$1,000,000, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions set out under categories 4 to 10 above have been or are carried out in the ordinary and usual course of business of the Group, on normal commercial terms (defined under the Listing Rules), and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The continuing connected transactions set out in categories 6 to 10 above are non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and would be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the continuing connected transactions set out in categories 4 and 5 above, each percentage ratio (other than the profit ratio) is, on an annual basis, expected to be less than 2.5%. Accordingly, these transactions are not subject to the independent shareholders' approval requirement but are subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

As these continuing connected transactions are expected to continue on a recurring basis after the Listing, the Directors consider that it would be unduly burdensome and impracticable to comply with the announcement and/or the independent shareholders' approval requirements on each occasion when such transaction arises after the Listing. Accordingly, the Company has applied to the Stock Exchange for, and has been granted by the Stock Exchange, a waiver from strict compliance with these requirements under Rule 14A.42(3) of the Listing Rules for the period up to 31 December 2007. The Company has also confirmed that it would comply with the requirements set out in Rules 14A.35 to 41 of the Listing Rules and the various caps which are set out below:–

Category	**Cap**
4	For the three years ending 31 December 2007, the cap is set at RMB5,460,864 per annum
5	For the three years ending 31 December 2007, the cap is set at RMB8,500,000, RMB9,000,000 and RMB9,500,000 respectively
6	For the three years ending 31 December 2007, the cap is set at RMB55,000,000, RMB60,500,000 and RMB66,550,000 respectively
7	For the three years ending 31 December 2007, the cap is set at RMB13,000,000 per annum

Category	Cap
8	For the three years ending 31 December 2007, the cap is set at RMB27,000,000, RMB27,800,000 and RMB28,500,000 respectively
9	For the three years ending 31 December 2007, the cap is set at RMB24,000,000, RMB24,800,000 and RMB25,500,000 respectively
10	For the three years ending 31 December 2007, the cap is set at RMB11,000,000, RMB11,000,000 and RMB11,000,000 respectively

The Directors, including the independent non-executive Directors, consider that the annual caps set out above are fair and reasonable and in the interest of the Shareholders as a whole.

Confirmation from the Sponsor

The Sponsor is of the view that the continuing connected transactions for which the waivers are sought are carried out in the ordinary and usual course of business of the Group, on normal commercial terms (defined under the Listing Rules), and on terms that are fair and reasonable and in the interest of the Shareholders as a whole. The Sponsor also considers that the annual caps set out above are fair and reasonable and in the interest of the Shareholders as a whole.

RELATIONSHIP WITH REJOY GROUP, THE CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES

Overview

Rejoy Group and its associates

Rejoy Group held 20% equity interest in Xi'an Lijun as at the Latest Practicable Date. Rejoy Group is a company established in the PRC in 1998 and it has been and remains to be held by SPC. SPC was formerly a department of the Shaanxi Provincial Government (陝西省人民政府) responsible for the supervision of the pharmaceutical industry in Shaanxi Province. In August 1993, it was transformed to SPC and became a State-owned enterprise. In 1994, SPC was granted the right to manage State-owned assets (國有資產管理權經營權) and is under the direct supervision of the Shaanxi Provincial Government.

Rejoy Group is an investment holding company which had three principal subsidiaries as at the Latest Practicable Date, including (1) Shaanxi Xi'an Pharmaceutical Factory, (2) Zhenjiang Pharmaceutical, and (3) Rejoy Medicine, as at the Latest Practicable Date. It should be noted that Rejoy Group has on 26 September 2005 entered into an agreement to dispose of its 51% equity interest in Zhenjiang Pharmaceutical to an Independent Third Party, with such transfer to be completed in or about December 2005.

At the time when Xi'an Lijun was established, Rejoy Group injected the entire pharmaceutical manufacturing business and assets of Shaanxi Xi'an Pharmaceutical Factory into Xi'an Lijun as capital contribution and thereafter, Shaanxi Xi'an Pharmaceutical Factory did not carry out any pharmaceutical manufacturing and/or distribution business. In light of the foregoing, Shaanxi Xi'an Pharmaceutical Factory does not compete with the Group.

During the Track Record Period, Zhenjiang Pharmaceutical was one of the Group's suppliers of bulk pharmaceuticals including erythromycin, erythromycin estolate and erythromycin ethylsuccinate, which are the key raw materials for the production of some of the Group's antibiotics products. The principal business of Zhenjiang Pharmaceutical is the manufacturing and sale of bulk pharmaceuticals such as erythromycin, erythromycin estolate and erythromycin ethylsuccinate. Certain bulk pharmaceuticals produced by Zhenjiang Pharmaceutical are also produced by the Group. To the best knowledge of the Directors, bulk pharmaceuticals produced by Zhenjiang Pharmaceutical are all sold in the PRC market. On the other hand, bulk pharmaceuticals produced by the Group are either used by the Group for its production of finished medicines or exported to overseas directly or indirectly through export agents in the PRC. Zhenjiang Pharmaceutical has undertaken to the Company that, so long as Rejoy Group holds more than 30% equity interests in Zhenjiang Pharmaceutical, it will only sell its bulk pharmaceuticals in the PRC while the Directors confirmed that the Group's bulk pharmaceuticals are and will be either used by the Group for its production of finished medicines or exported to overseas directly or indirectly through export agents in the PRC. As such, the Directors consider that the business of Zhenjiang Pharmaceutical has not competed and will not compete with that of the Group.

Rejoy Medicine is one of the distributors of the Group and is principally engaged in distribution of pharmaceutical products in the PRC. To the best knowledge of the Directors, Rejoy Medicine distributes a wide range of pharmaceutical products which include the products produced by the Group and by other pharmaceutical manufacturers, and Rejoy Medicine sells the products directly or indirectly through sub-distributors to hospitals, clinics and drug stores. It is the Directors' view that the fact that Rejoy Medicine is engaged in the distribution of pharmaceutical products does not necessarily make it a competitor of the Group since Rejoy Medicine is not a pharmaceutical products manufacturer and it is not selling the pharmaceutical products produced by itself. The business nature of Rejoy Medicine would only facilitate the business of a pharmaceutical products manufacturer. Moreover, Rejoy Medicine is considered as part of the sales and distribution channel of the Group, and is one of the customers of the Group. Like other customers of the Group that are pharmaceutical trading companies in the supply chain, Rejoy Medicine has performed the same role in the wholesale of the Group's products. As the nature of business of a pharmaceutical products manufacturer and that of a pharmaceutical products distributor is totally different, the Directors consider that the Group and Rejoy Medicine are engaged in two distinctly different businesses and therefore there is no actual or potential competition between the Group and Rejoy Medicine.

Notwithstanding the aforesaid, to provide better safeguard to the interest of the Shareholders and the Company, the Directors have procured Rejoy Medicine to undertake to the Company that, subject to the Listing and so long as Rejoy Group holds more than 30% equity interests in Rejoy Medicine and/or controls the composition of the majority of its board of directors, with effect from the Listing Date, it will only engage in (and will procure in its subsidiaries to only engage in) the selling/ distribution of pharmaceutical products that are manufactured by the Group.

Save as disclosed above, Rejoy Group has no interest in a business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with Group's business.

The Controlling Shareholders and their respective associates

The Controlling Shareholders include Prime United Industries Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited, which are the replica (from the shareholding structure perspective) of Rejoy Technology, Xi'an Sanjiang, Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang respectively.

The principal business of Rejoy Technology is investment holding, and as at the Latest Practicable Date, it had three subsidiaries, Rejoy Baichuan Medicines Chemical Engineering Company Limited ("Rejoy Baichuan"), Rejoy Real Estate and Xi'an Rejoy Packaging Materials, Co., Ltd ("Rejoy Packaging"). The principal business of Rejoy Real Estate is property sales, development and management. Rejoy Packaging is principally engaged in sale and production of packaging materials for pharmaceutical products, and it is one of the Group's suppliers.

Rejoy Baichuan is one of the distributors of the Group, and is principally engaged in retail and distribution of pharmaceutical products and chemicals in the PRC. To the best knowledge of the Directors, Rejoy Baichuan distributes a wide range of pharmaceutical products which include the products produced by the Group and by other pharmaceutical manufacturers, and Rejoy Baichuan sells the products directly or indirectly through sub-distributors to hospitals, clinics and drug stores. Rejoy Baichuan also owns a drug store to sell the products distributed by it. For the reasons set out in the paragraph headed "Rejoy Group and its associates" above in respect of Rejoy Medicine, it is the Directors' view that Rejoy Baichuan should not be regarded to be in competition with the Group. Notwithstanding the aforesaid, to provide better safeguard to the interest of the Shareholders and the Company, the Directors have procured Rejoy Baichuan to undertake to the Company that, subject to the Listing and so long as Rejoy Technology holds more than 30% equity interests in Rejoy Baichuan and/or controls the composition of the majority of its board of directors, with effect from the Listing Date, it will only engage in (and will procure in its subsidiaries to only engage in) the selling/distribution of pharmaceutical products that are manufactured by the Group.

To the best knowledge of the Directors, (i) the principal business of Xi'an Combel is manufacture and sale of finished medicines and Chinese medicines, and Xi'an Combel does not manufacture any finished medicines that are currently manufactured by the Group, but Xi'an Combel produces certain Chinese medicines which may have similar curative effects as the Chinese medicines produced by the Group; (ii) the principal business of Shenzhen Jinhuo is manufacture and distribution of Chinese medicines, and Shenzhen Jinhuo produces and distributes certain Chinese medicines which may have similar curative effects as the Chinese medicines manufactured by the Group; and (iii) Liaoning Huabang, being one of the Group's distributors, is principally engaged in the distribution of pharmaceutical products, and it distributes a wide range of pharmaceutical products, which include the products produced by the Group and by other pharmaceutical manufacturers, directly or indirectly through sub-distributors to hospitals, clinics and drug stores. In addition to its distribution business, Liaoning Huabang currently manufactures only one product, ofloxacin injection, which is a type of antibiotics not currently produced by the Group, and the Group has no intention to produce such product.

The Directors consider that the manufacturing businesses of Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang may compete with the Group's business. However, for the reasons set out in the paragraph headed "Rejoy Group and its associates" above in respect of Rejoy Medicine, the distribution businesses of Shenzhen Jinhuo and Liaoning Huabang are not considered to be in competition with the Group.

In any event, it should be noted that each of Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited, which are the replica (from the shareholding structure perspective) of Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang respectively, holds a minimal interest in the Company, that is, approximately 1.19%, 1.78% and 0.57% in the Company respectively. Although each of Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited is one of the Controlling Shareholders and Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang have been acting in concert with Rejoy Technology in relation to the matters of Xi'an Lijun, none of these companies can, by itself, exercise any control on the Company on its own. The Directors confirm that, save for Mr. Li Pai being a director of each of Xi'an Lijun and Xi'an Combel, none of the directors of the Company and its subsidiaries are the directors of Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang and the management of the Group is independent from that of Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang. Therefore, even though there may be competition between the Group and Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang (and the businesses of Xi'an Combel, Shenzhen Jinhuo and Liaoning Huabang are not and will not be injected into the Group), such competition is unlikely to cause any prejudice to the Shareholders as a whole.

Save as disclosed above, none of the Controlling Shareholders has an interest in a business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with Group's business.

Independence of the Group from Rejoy Group and the Controlling Shareholders and their respective associates

Management independence

The table sets out the list of directors of the Company and their directorships in the Rejoy Group and the Controlling Shareholders:

Name of directors	The Company	Rejoy Group	Prime United Industries Limited
WU Qin	Executive Director	Executive director	Director
WU Zhihong	Executive Director	Executive director	Director
HUANG Chao	Executive Director	N/A	Director
XIE Yunfeng	Executive Director	N/A	Director
SUN Xinglai	Executive Director	N/A	N/A
LIU Zhiyong	Non-executive Director	N/A	N/A
QU Jiguang	Independent non-executive Director	N/A	N/A
CHOW Kwok Wai	Independent non-executive Director	N/A	N/A
LEUNG Chong Shun	Independent non-executive Director	N/A	N/A

Prime United Industries Limited, one of the Controlling Shareholders, is a replication (from the shareholding structure perspective) of Rejoy Technology. The principal business of Prime United Industries Limited is investment holding, and the sole asset held by it is and will be the Shares. The Directors confirmed that Prime United Industries Limited has not carried and will not carry on any other businesses or activities.

In addition, as shown in the table, two Directors are holding directorships in Rejoy Group. It is believed that these Directors are able to perform their roles in the Company independently and the Group is capable of managing its business independently of Rejoy Group and the Controlling Shareholders and their respective associates after the Listing for the following reasons:

(i) the independence of the Directors who also serve as directors in Rejoy Group will not be affected by their concurrent positions since, after the Listing, the business of the Company will be managed by the Board as a whole which include the independent non-executive Directors, and not by Rejoy Group in which some of the Board members have management roles; and

(ii) none of the Directors has any interest in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

In view of the foregoing, the Company is satisfied that it is capable of maintaining management independence after the Listing.

In addition, each Director is aware of his or her fiduciary duties as a director of the Company which require, among other things, that he or she acts for the benefit and in the best interests of the Company and all its shareholders as a whole and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and Rejoy Group, the Controlling Shareholders or their respective associates, the interested Directors shall abstain from voting at the relevant Board meeting. As a general principle, the Directors who hold directorships with Rejoy Group and the Controlling Shareholders and their respective associates shall abstain from voting at relevant board meetings of Rejoy Group and the Controlling Shareholders and their respective associates and of the Group for those in respect of such transactions where there is potential conflict of interest.

The Board will also closely follow the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules to ensure that the Board as a whole safeguards the interests of the Company and its subsidiaries.

Based on the above, the Directors are satisfied that they are able to perform their roles in the Company independently and the Directors are of the view that the Group is capable of managing its business independently of Rejoy Group and the Controlling Shareholders and their respective associates after the Listing.

Financial independence

During the Track Record Period, Rejoy Group provided certain guarantees in favour of various banks for loans or credit facilities drawn by Xi'an Lijun and Heng Xin Tang and such guarantees were provided by Rejoy Group for nil consideration. These loans or credit facilities were required for the expansion of the Group in recent years. As at the Latest Practicable Date, all of such guarantees were released. Save for the aforesaid guarantees for loans or credit facilities drawn by Xi'an Lijun and Heng Xin Tang, there was no other financial support provided to the Group by Rejoy Group, the Controlling Shareholders or their respective associates.

Based on the above, the Directors are of the view that the Group is financially independently of Rejoy Group, the Controlling Shareholders and their respective associates after the Listing.

Independent sales channel and access to sources of supplies/raw materials

The Group has its own sources of supplies/raw materials and sales and distribution channel. Such sources of supplies/raw materials and sales and distribution channel are independent of Rejoy Group, the Controlling Shareholders and their respective associates, save for certain members of Rejoy Group, the Controlling Shareholders and their respective associates being the Group's suppliers or distributors.

During the Track Record Period, the Group has purchased raw materials from and distributed its products to Rejoy Group and the Controlling Shareholders and their respective associates, details of which are set out below:

	Supply of raw materials				Distribution of the Group's products			
	Year ended 31 December			Six months ended 30 June	Year ended 31 December			Six months ended 30 June
	2002	2003	2004	2005	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Rejoy Group and its associates								
Zhenjiang Pharmaceutical	36,816 (12.9%)*	31,096 (10.3%)*	11,900 (3.8%)*	5,143 (3.1%)	–	–	–	–
Rejoy Medicine	–	–	–	–	11,052 (1.3%)**	14,291 (1.6%)**	26,663 (3.0%)**	8,403 (1.9%)**
Global Printing *(Note 1)*	8,578 (3.0%)*	9,243 (3.1%)*	6,854 (2.2%)*	4,057 (2.5%)	–	–	–	–
The Controlling Shareholders and their respective associates								
Rejoy Packaging	728 (0.3%)*	538 (0.2%)*	674 (0.2%)*	496 (0.3%)*	–	–	–	–
Rejoy Baichuan	133 (0.1%)	2,113 (0.7%)	6,816 (2.2%)	60 (0.04%)	58 (0.01%)**	410 (0.1%)**	27,079 (3.0%)**	5,250 (1.2%)**
Liaoning Huabang	–	–	–	–	29,834 (3.5%)**	19,453 (2.2%)**	5,953 (0.7%)**	3,369 (0.8%)**
Total	**46,255 (16.3%)***	**42,990 (14.3%)***	**26,244 (8.4%)***	**9,756 (5.9%)***	**40,944 (4.8%)****	**34,154 (3.9%)****	**59,695 (6.7%)****	**17,022 (3.9%)****

* *% of the total purchase costs*
** *% of the total sales*

Notes:

1. Global Printing is held as to 45% by SPC, which holds all the interests in Rejoy Group.

In view of the aggregate amount of purchases from Zhenjiang Pharmaceutical, Global Printing, Rejoy Packaging and Rejoy Baichuan and that the Group would not encounter material problem in sourcing the raw materials that are currently supplied by the same as the Group can source such raw materials from other independent suppliers within a short period of time at similar prices, the Directors consider that the Group has not relied and will not rely on Rejoy Group and the Controlling Shareholders and their respective associates for provision of raw materials of comparable quality for production.

Taking into account the aggregate sale amount distributed by Rejoy Medicine, Rejoy Baichuan and Liaoning Huabang during the Track Record Period and that the Group has approximately 404 distributors for distribution of the Group's products, the Directors considered that the Group has not relied and will not rely on Rejoy Group and the Controlling Shareholders and their respective associates for provision of distribution of the Group's products.

Operational independence

During the Track Record Period, the Group entered into various transactions with Rejoy Group and the Controlling Shareholders and their respective associates which may affect the operation of the Group.

Name	**Nature of transaction**	**Discontinued/ Continuing**
Xiyao Construction	(1) Provision of building construction services	Discontinued
Shaanxi Xi'an Pharmaceutical Factory	(2) Provision of equipment management services	Discontinued
	(3) Provision of utilities such as electricity, water, steam, cooling salt water and compressed air	Continuing
	(4) Sharing of administrative costs	Continuing
Rejoy Group	(5) Lease of land-use rights	Continuing

(1) During the Track Record Period, Xiyao Construction, which had been a wholly-owned subsidiary of Shaanxi Xi'an Pharmaceutical Factory, which in turn is wholly owned by Rejoy Group, provided building construction services (including construction, maintenance and repairment) to Xi'an Lijun. Following the transfer of equity interests in December 2004, Xiyao Construction became owned as to 29.7% by Rejoy Group and 70.3% by other individuals who are Independent Third Parties and Xiyao Construction was no longer a connected person of the Company under the Listing Rules. The Directors have confirmed that the Group would not encounter material problem in identifying other independent building construction service providers which provide such services currently offered by Xiyao Construction at similar prices, the Directors are of the view that the Group will not rely on Xiyao Construction for provision of building construction services.

(2) During the Track Record Period, Shaanxi Xi'an Pharmaceutical Factory provided management and maintenance services to Xi'an Lijun in respect of cooling systems, fire systems and a bathing centre of Xi'an Lijun. The Directors confirmed that Xi'an Lijun ceased to engage Shaanxi Xi'an Pharmaceutical Factory to provide the aforesaid management services from 1 January 2005 and such equipment has been managed by Xi'an Lijun itself from the same date. Based on the foregoing, the Directors are of the view that the Group will not rely on Shaanxi Xi'an Pharmaceutical Factory for the provision of management and maintenance services.

(3) During the Track Record Period, Shaanxi Xi'an Pharmaceutical Factory has provided utilities including electricity, water, steam, cooling salt water and compressed air to Xi'an Lijun. Shaanxi Xi'an Pharmaceutical Factory will continue to provide such utilities to Xi'an Lijun after the Listing. The Directors considered that the Group has not relied on Shaanxi Xi'an Pharmaceutical Factory for the provision of utilities on the ground that the Group can source such services from other utilities providers in the market and the reason for using Shaanxi Xi'an Pharmaceutical Factory as the sole supplier during the Track Record Period (except the Group has also sourced steam from other Independent Third Party because steam provided by Shaanxi Xi'an Pharmaceutical Factory was insufficient for the Group's production) was that Shaanxi Xi'an Pharmaceutical Factory can offer favourable prices to the Group when comparing with other independent utilities providers. As there are independent utilities providers available in the market, the Group has not relied and will not rely on Shaanxi Xi'an Pharmaceutical Factory for the provision of utilities services.

(4) During the Track Record Period, Xi'an Lijun shared the administrative costs of Shaanxi Xi'an Pharmaceutical Factory so that the employees of Xi'an Lijun were entitled to use certain facilities and services including hospitals, nursery, schools, security, property management and environmental beautification provided by Shaanxi Xi'an Pharmaceutical Factory. Such arrangement will continue after the Listing. The Directors consider that the Group has not relied on Shaanxi Xi'an Pharmaceutical Factory for provision of administrative facilities and services on the ground that the Group can source such services from independent service providers in the market and the reason for using Shaanxi Xi'an Pharmaceutical Factory as the sole supplier was that Shaanxi Xi'an Pharmaceutical Factory itself can provide a full range of administrative facilities and services (including hospitals, nursery, schools, security, property management and environmental beautification) to the Group. The Directors consider such one-stop service is easier for the Group to manage and control. The Group did not seek for any independent service providers in the past and does not have any current intention to seek in the future to replace Shaanxi Xi'an Pharmaceutical Factory as provision of full range of such administrative facilities and services will involve a few of service providers which the Directors consider as not efficient for the Group's management. In addition, the Directors consider that self-provision of such kind of administrative facilities and services will require significant resources of the Group and that the Group does not intend to do so.

(5) During the Track Record Period, Xi'an Lijun leased land-use rights with a total area of approximately 113,768 square metres from Rejoy Group (the "Land Use Rights" or the "Land"). This continuing connected transaction has been and will be carried out on normal commercial terms and for the three years ended 31 December 2004, the rent paid by Xi'an Lijun for the Land Use Rights was at RMB5 per square meter per month. As advised by

Sallmanns (Far East) Limited ("Sallmanns"), an independent valuer, such rent of RMB5 per square meter per month exceeded the relevant prevailing market rent. Since 1 January 2005, the rent paid by Xi'an Lijun to Rejoy Group for the Land Use Rights has been revised to RMB4 per square meter per month. Sallmanns has confirmed that such rent of RMB4 per square meter per month is fair and reasonable and reflects the prevailing market rates.

The Land has been used by the Group for production, storage and office purposes. Given the Land Use Rights are important for the Group's operation, Rejoy Group agreed to grant an undertaking to the Group prior to the Listing pursuant to which (i) Rejoy Group undertakes not to transfer the whole or part of the Land Use Rights to any other parties so long as the Land Use Rights are leased to the Group; (ii) Rejoy Group grants the Group a first right to renew the relevant Land Use Rights rental agreements upon their expiry on the same terms offered by the Group which are no less favourable than those offered by Independent Third Parties; and (iii) Rejoy Group grants the Group a first right to purchase the Land Use Rights on the same terms offered by the Group which are no less favourable than those offered by Independent Third Parties.

The Directors confirm that, in the circumstance that Rejoy Group does not lease the Land Use Rights to Xi'an Lijun, (i) Xi'an Lijun will be able to lease another piece of land from Independent Third Parties with similar size as the Land at the relevant prevailing market rent in a short period of time, and (ii) to save the time for construction of the buildings on the new land for reestablishment of Xi'an Lijun's operations currently established on the Land, Xi'an Lijun would prefer to lease buildings instead of land for such purpose, which shall also take a short period of time. The Directors also confirm that, in such circumstance, the removal and reconstruction of the Group's operations currently established on the Land in the newly-leased buildings will be conducted by stages, and the Group will be able to finance the expenses for such removal and reconstruction by its internal resources. As such, the Directors are of the view that the Group's business operations will not be materially affected under the circumstance that the Rejoy Group does not lease the Land Use Rights to Xi'an Lijun and the Group has to move its operations on the Land to other place.

On the basis of the aforesaid reasons, the Directors consider that the Group operates independently of Rejoy Group and the Controlling Shareholders and their respective associates.

DIRECTORS

Executive Directors

Mr. Wu Qin (吳秦), aged 53, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu has been the chairman of Rejoy Group since October 1998. He has also been the chairman and the director of Xi'an Lijun since November 1999. Mr. Wu was also the general manager of Xi'an Lijun from November 1999 to April 2002. Mr. Wu has over 30 years of experience in the pharmaceutical industry. Mr. Wu graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002. He has been awarded with the Model of National Labor and National May First Labor Award and has been the executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a Deputy of the Tenth National People's Congress, vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

Mr. Wu Zhihong (烏志鴻), aged 57, the vice-chairman of the Company and is responsible for investment of the Group. Mr. Wu has been deputy chairman of Rejoy Group since October 1999 and was the chief executive officer of Rejoy Group from October 1999 to April 2005. He has also been the deputy chairman and the director of Xi'an Lijun since November 1999. Mr. Wu joined the Group since its establishment in November 1999 and has over 30 years of experience in pharmaceutical industry. Mr. Wu graduated from Shenyang College of Pharmaceutical with pharmaceutical management profession in 1985. He is also a senior economist and a registered pharmacist accredited by SFDA in February 2004.

Mr. Huang Chao (黃朝), aged 50, an executive Director and is responsible for finance, production and sales of the Group. Mr. Huang has been the director of Xi'an Lijun since November 1999 and is currently the general manager of Xi'an Lijun. He had been the deputy chairman of Xi'an Lijun until December 2004 and was the deputy chairman of Rejoy Group from August 1999 to September 2005. Mr. Huang joined the Group since its establishment in November 1999 and has over 30 years of experience in pharmaceutical production. Mr. Huang graduated from The Open University of Hong Kong with a Postgraduate Certificate in Business Administration in 2000.

Mr. Xie Yunfeng (謝雲峰), aged 51, an executive Director and is responsible for supplies and construction of workshops of the Group. Mr. Xie has been the director and deputy general manager of Xi'an Lijun since November 1999. He was the director of Rejoy Group from August 1999 to May 2004. Mr. Xie joined the Group since its establishment in November 1999 and has over 26 years of experience in pharmaceutical production. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001.

Ms. Sun Xinglai (孫幸來), aged 49, an executive Director and is responsible for public relation of the Group. Ms. Sun has been the director of Xi'an Lijun since May 2004. She was deputy general manager of Xi'an Lijun during November 1999 to May 2004. Ms. Sun joined the Group since its establishment in 1999. Ms. Sun was the director of Rejoy Group from May 2004 to September 2005 and the chief executive officer of Rejoy Technology from May 2004 to April 2005, and the chairmans of labour unions of Rejoy Group and Xi'an Lijun. Ms. Sun graduated from The Open University of Hong Kong with a degree of Master in Business Administration in 2002.

Non-executive Director

Mr. Liu Zhiyong (劉志勇), aged 35, is a non-executive Director and a director of Xi'an Lijun. He joined China National Technical Import and Export Corporation as a finance personnel and became the assistant managing director and executive director of CNTIC Group International Finance Limited in May 1998. Mr. Liu took up the post of the president of Genertec Hong Kong International Capital Limited in July 2003. Mr. Liu is a director of Victory Rainbow Investment Limited. Mr. Liu graduated from Renmin University of China with a bachelor's degree in Accounting in 1992 and he is a member of CICPA. He was appointed as a non-executive Director in December 2004.

Independent non-executive Directors

Mr. Qu Jiguang (曲繼廣), aged 50, is an independent non-executive Director. Mr. Qu joined Shijazhuang No.1 Pharmaceutical Factory as deputy factory manager in 1995. He later became the director and vice general manager of Shijiazhuang Pharmaceutical Group. From January 2000, Mr. Qu has been the chairman and general manager of Shijiazhuang Siyao Pharmaceutical Ltd. Mr. Qu was an executive director of China Pharmaceutical Group, a company listed on the Main Board, from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. He was appointed as an independent non-executive Director in October 2005.

Mr. Chow Kwok Wai (周國偉), aged 38, is an independent non-executive Director. He is also a director, a deputy general manager and qualified accountant of Silver Grant International Industries Limited, a company listed on the Stock Exchange. Mr. Chow has worked in Price Waterhouse and accumulated valuable audit experience. Mr. Chow graduated from the University of Hong Kong with a bachelor's degree in Social Sciences in 1990. He is a Fellow Member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. Mr. Chow has over 10 years of experience in accounting financial management and corporate finance. He was appointed as an independent non-executive Director in October 2005.

Mr. Leung Chong Shun (梁創順), aged 40, is an independent non-executive Director. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance. Mr. Leung was appointed as an independent non-executive Director in October 2005.

DIRECTORS' REMUNERATION

Each of Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Sun Xinglai, all being executive Directors, has entered into a service contract with the Company for a term of 3 years commencing from 16 October 2005, which may be terminated by either party thereto giving to the other party three months' prior notice in writing, or three months' basic salary in lieu of notice.

Under the service contracts, the current basic annual salaries of the executive Directors are as follows:

Mr. Wu Qin	HK$840,000
Mr. Wu Zhihong	HK$600,000
Mr. Huang Chao	HK$600,000
Mr. Xie Yunfeng	HK$360,000
Ms. Sun Xinglai	HK$360,000

Under the service contracts, each of the executive Directors will also be entitled to reimbursement of all reasonable out-of-pocket expenses and other benefits such as medical insurance.

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the aggregate amount of emoluments paid and payable to each of the executive Directors by the Group was as follows:

	Year ended 31 December			**Six months ended 30 June**
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Wu Qin	485	491	527	76
Mr. Wu Zhihong	485	491	497	71
Mr. Huang Chao	404	406	457	76
Mr. Xie Yunfeng	244	235	257	45
Ms. Sun Xinglai	204	196	256	46
Total	1,822	1,819	1,994	314

Under arrangements currently in force as at the date of this prospectus, the estimated amount of directors' fees and other emoluments payable to the Directors by the Group for the year ending 31 December 2005 is approximately RMB2,310,000.

AUDIT COMMITTEE

The Company established an audit committee in compliance with Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee of the Group consists of the three independent non-executive Directors, namely Mr. Qu Jiguang, Mr. Chow Kwok Wai, and Mr. Leung Chong Shun. Mr. Chow Kwok Wai was appointed as the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee in compliance with Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Mr. Chow Kwok Wai, Mr. Qu Jiguang and Mr. Leung Chong Shun. All of the committee members are independent non-executive Directors. The chairman of the remuneration committee is Mr. Leung Chong Shun. The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of the Directors and senior management, and evaluate retirement scheme and performance assessment system and bonus and commission policies of the Company.

SENIOR MANAGEMENT

Mr. Wang Xian Jun (**王憲軍**), aged 42, is the chief executive officer of the Company and is responsible for investor relation and public relation of the Group. He has over 20 years' experience in pharmaceutical industry. Mr. Wang joined Shijazhuang Pharmaceutical Group in 1987 and became deputy chief engineer in 1989 and director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group, a company listed on the Main Board, until December 2002. Mr. Wang graduated from Beijing Chemical Engineering College with a master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as the general manager of the Company in December 2004 and promoted to the chief executive officer of the Company in October 2005.

Ms. Han Yamei (**韓雅美**), aged 58, is a director of Xi'an Lijun and is responsible for overseeing human resources and sales and marketing of Xi'an Lijun. She joined the Group since its establishment in August 1999. Ms. Han has over 30 years' experience in sales and marketing. She is an economist accredited by Ministry of Personnel of the PRC (中華人民共和國人事部).

Mr. Zhang Yabin (**張亞濱**), aged 38, is a director of Xi'an Lijun and is responsible for overseeing the marketing and promotion of the Xi'an Lijun as well as the development of sale networks. He joined the Group since its establishment in November 1999. Mr. Zhang has over 15 years' experience in pharmaceutical industry. Mr. Zhang graduated with a degree of Master in Business Administration from Online Education College of Renmin University of China (中國工商管理碩士研究生(網絡)學院) in 2002 and also obtained a bachelor's degree in Organic Chemical Engineering from Dalian University of Technology (大連理工學院) in 1988. He is also a senior engineer accredited by Senior Professional Personnel Qualification of Shaanxi Provincial Government (陝西省人民政府高級專業技術任職資格) and a senior manager accredited by Occupational Skill Testing Authority (職業技能鑑定(指導)中心).

Mr. Wang Jiding (王繼丁), aged 56, is the chief accountant of Xi'an Lijun and is responsible for overseeing the finance and accounting function of Xi'an Lijun. He joined the Group since its establishment in November 1999. Mr. Wang has over 25 years' of experience in finance and accounting in the PRC.

Mr. Wang Jianting (王建廷), aged 58, is a vice general manager of Xi'an Lijun and is responsible for production function of Xi'an Lijun. He joined the Group since its establishment in November 1999 and has over 35 years' experience in pharmaceutical industry.

Mr. Chen Xiaojun (陳曉軍), aged 42, is the chief engineer of Xi'an Lijun. He joined the Group since its establishment in November 1999 and is responsible for the research and development of Xi'an Lijun. He was also an officer of technology committee. Mr. Chen graduated from Shenyang School of Pharmacy with a bachelor's degree in Pharmacy in 1986. He is also a registered pharmacist accredited by the SFDA in 2004.

Mr. Xu Gang (許剛), aged 41, is the managing director of Heng Xin Tang and is responsible for overseeing the overall daily operation of Heng Xin Tang. Mr. Xu joined Heng Xin Tang in January 2005. He has over 10 years of experience in financial management and, sales and marketing. Mr. Xu graduated from Shanghai Jiao Tong University (上海交通大學) with a Bachelor of Sciences degree in Engineering in 1986. He has Master of Business Administration from University of Ottawa in October 2000.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Lam Yiu Por (林曉波), aged 29, is the qualified accountant, company secretary and financial controller of the Company. Mr. Lam was appointed as the qualified accountant, company secretary and financial controller of the Company in October 2005. He graduated with a bachelor's degree in Accountancy from Hong Kong Polytechnic University in 1997. Mr. Lam has more than seven years of experience in the field of finance and accounting. Prior to joining the Company as its qualified accountant, he was the qualified accountant of a company listed on the Main Board. He is a member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants.

WAIVER FOR STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

For the purpose of the Listing, the Sponsor has, on behalf of the Company, applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. Under Rule 8.12 of the Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since the establishment of the Group, it has been located in the PRC and all the executive Directors (except Ms. Sun Xinglai) are ordinarily resident in the PRC. At present, the majority of the business operations of the Group are managed and conducted in the PRC. None of the Group's business is located, conducted or managed in Hong Kong. Accordingly, for the purposes of the management and operations of the Group, appointment of an additional executive Director to the Board would not only increase the administrative expenses of the Group, but would also reduce the effectiveness of the Board's management of the Group, especially when business decisions are required to be made within a short period of time.

In addition, if such executive Director is appointed, since he/she will not be physically present in the PRC all the time, he/she will not be able to fully understand the daily operations of the Group or fully appreciate the circumstances surrounding or affecting the business operations and development of the Group in a timely fashion. As such, such executive Director may not be able to make business decisions on a fully informed basis, and that will not be in the interests of the Group.

Owing to the above, it is considered that appointment of an additional executive Director to the Board who will be ordinarily resident in Hong Kong is not beneficial or appropriate for the Group, despite the fact that the Directors are aware of the requirements under Rule 8.12 of the Listing Rules. The Company has appointed a company secretary (who also acts as the qualified accountant of the Company) who is and will be ordinarily resident in Hong Kong. The company secretary has been appointed as the alternate to the two authorised representatives of the Company in order to facilitate the communications between the Company and the Stock Exchange.

In addition, to enhance the communication between the Stock Exchange/authorised representatives and the Directors, the Company will implement the policies that (1) each executive Director will provide his or her office phone number, mobile phone number, residential phone number, fax number and email address (if applicable) to the authorised representatives and his/her alternate; (2) in the event that an executive Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives and his/her alternate; and (3) all the executive Directors will provide their office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the Stock Exchange. In addition, Mr. Wu Zhihong and Ms. Sun Xinglai, both executive Directors, have confirmed that they would be able to meet with the Stock Exchange at short notice. Furthermore, as Mr. Leung Chong Shun and Mr. Chow Kwok Wai, both being independent non-executive Directors, are ordinarily resident in Hong Kong, they will be alternative contact persons to facilitate the communications between the Company and the Stock Exchange and will (i) provide their office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the Stock Exchange and (ii) be provided with all the office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) of the executive Directors.

STAFF

Overview of Staff Numbers

As at the Latest Practicable Date, the Group employed a total of 2,602 staff and workers in the PRC. The breakdown of its workforce by functions is as follow:

	Number of staff and workers
Management and administration	395
Production	1,402
Sales and marketing	422
Research and development	62
Quality control	91
Finance and accounting	87
Logistics and storage	143
Total	2,602

Remuneration of the Group's employees and workers consist of basic salaries and commission bonuses. The Group's remuneration expenses were approximately RMB67,925,000, RMB72,030,000, RMB78,429,000 and RMB44,716,000 respectively, representing 19.4%, 19.3%, 24.7% and 29.5% respectively of the Group's operating expenses for each of the three years ending 31 December 2004 and the six months ended 30 June 2005.

The Group provides its new hired staff with adequate training to enable them to understand the company's business, company culture and work procedures. The training is in the form of classes and interactive discussion groups.

The Group's relationship with staff

The Directors confirm that the Group has not experienced any significant problems with its employees or disruption to its operations due to strike, work stoppage or labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors consider that the Group has a good working relationship with its employees.

Benefit schemes

The Group offers a comprehensive remuneration and employees' benefit package to its employees in the PRC. Such package includes retirement, medical and unemployment insurance. The Group has complied with the relevant laws and regulations of the PRC in relation to, and has made appropriate payments, to the society security scheme of the PRC. The employees of the Group in the PRC participate in a defined contribution retirement benefit plan organised by the Shaanxi Provincial Government under which the Group was required to make monthly defined contributions to the plan at rates of 20% for the relevant periods on the employees' salary. For further details, please refer to the Note 9a to the accountants' report set out in Appendix I to this prospectus.

SHARE OPTION SCHEME

The Group has conditionally adopted the Share Option Scheme whereby certain participants may be granted options to acquire Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus. The Group believes that such arrangement will improve the recruitment and retention of high quality executives and staff.

COMPLIANCE ADVISER

The Company has appointed Guotai Junan Capital Limited as its compliance adviser (the "Compliance Adviser"). The term of the appointment shall commence on 16 December 2005 and end on the date of publication of the Company's financial results for the first full financial year after the Listing, and for any further period directed by the Stock Exchange.

The Compliance Adviser has undertaken to the Stock Exchange that it will comply with the Listing Rules and cooperate in any investigation conducted by the Listing Division and/or the Listing Committee. The Compliance Adviser will ensure that the Company is properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines in Hong Kong including the publication of regulatory announcement, circular or financial report and the entry into notifiable or connected transactions.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, immediately after the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares to be allotted and issued pursuant to the exercise of Over-allotment Option or any option to be granted under the Share Option Scheme), the following persons (who are not Directors or chief executives of the Company) will have an interest or a short position in the shares, underlying shares and debentures of the Company which, once the Shares are listed, would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Shareholder	Name of company in which interests are held	Capacity	Number of Shares/ Amount of registered capital held	Approximate percentage of shareholding
Prime United Industries Limited *(Note 1)*	The Company	Beneficial owner	123,984,000 Shares (L) 10,500,000 Shares (S) *(Note 2)*	44.28% 3.75%
Victory Rainbow Investment Limited	The Company	Beneficial owner	52,500,000 Shares (L)	18.75%
Grand Ocean Shipping Company Ltd. *(Note 3)*	The Company	Interest of controlled corporation	52,500,000 Shares (L)	18.75%
Ms. Chen Lin-Dong *(Note 3)*	The Company	Interest of controlled corporation	52,500,000 Shares (L)	18.75%
Mr. Xu Ming *(Note 3)*	The Company	Interest of controlled corporation	52,500,000 Shares (L)	18.75%
Success Manage International Limited	The Company	Beneficial owner	22,344,000 Shares (L)	7.98%
Rejoy Group	Xi'an Lijun	Beneficial owner	RMB42,180,000	20%
SPC *(Note 4)*	Xi'an Lijun	Interest of controlled corporation	RMB42,180,000	20%

Shareholder	Name of company in which interests are held	Capacity	Number of Shares/ Amount of registered capital held	Approximate percentage of shareholding
Yi Li Fertilizer	Heng Xin Tang	Beneficial owner	RMB4,357,000	43.57%
Mr. Gao Zeng Yi *(Note 5)*	Heng Xin Tang	Interest of controlled corporation	RMB4,357,000	43.57%

The letters "L" and "S" denote the person's long position and short position in such Shares, respectively.

Notes:

1. Prime United Industries Limited 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 Industries Limited is a replication of the ownership structure of Rejoy Technology.

2. These Shares are the subject of the Stock Borrowing Agreement.

3. 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.

4. SPC holds all the equity interests in Rejoy Group.

5. Mr. Gao Zeng Yi holds 92% of the equity interests in Yi Li Fertilizer.

RESTRICTIONS ON DISPOSAL OF SHARES

Each of the Controlling Shareholders has severally undertaken to the Stock Exchange, the Sponsor and the Company that it shall not (save in connection with the stock borrowing arrangement described in the paragraphs headed "Over-allotment Option", "Stabilisation" and "Stock Borrowing Agreement" in the section headed "Structure of the Share Offer" in this prospectus):

(a) in the period commencing on the date of this prospectus and ending on the date which is 6 months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which the Controlling Shareholders are the beneficial owner; or

(b) in the period of 6 months commencing on the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights interests or encumbrances, the Controlling Shareholders would cease to be a controlling shareholder as defined under the Listing Rules.

Each of the Controlling Shareholders has also undertaken to the Stock Exchange, the Sponsor and the Company that within the period from the date of this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares first commence on the Stock Exchange, it shall:

(1) when it pledges/charges any securities of the Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of securities so pledged/charged; and

(2) when it receives indications, whether verbal or written, from the pledge/chargee that any of the pledged/charged securities will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in (1) and (2) above by any of the Controlling Shareholders and disclose such matters by way of a press announcement.

Victory Rainbow, a substantial shareholder of the Company, has also undertaken to the Company that it shall not and shall procure that its nominee(s) shall not (save in connection with the exercise of the Over-allotment Option) in the period commencing from the date of this Prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Main Board, sell, transfer or otherwise dispose of, nor enter into any agreement to sell, transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it is shown in the Prospectus to be the beneficial owner.

SHARE CAPITAL

Authorised share capital:		*HK$*
1,000,000,000	Shares	100,000,000
Issued and to be issued, fully paid or credited as fully paid:		
10,000	Shares in issue at the date of this prospectus	1,000
209,990,000	Shares to be issued pursuant to the Capitalisation Issue	20,999,000
70,000,000	Shares to be issued pursuant to the Share Offer	7,000,000
280,000,000	Shares	28,000,000

Assumptions

This table above assumes the Share Offer and the Capitalisation Issue become unconditional.

It takes no account of any Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme or Shares which may be issued pursuant to the exercise of the Over-allotment Option.

Ranking

The Offer Shares will rank pari passu with all Shares now in issue and/or to be issued as mentioned herein, and will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms of the scheme is set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be issued under the Share Option Scheme and any other share option scheme adopted by the Company must not exceed 30% of the Shares in issue from time to time. Initially, however, options to subscribe for Shares under the Share Option Scheme must not exceed 10% of the Shares in issue as at the Listing Date.

General mandate to issue Shares

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

1. 20% of the aggregate nominal value of the Shares in issue immediately following the Share Offer (not including Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of options granted under the Share Option Scheme); and

2. the aggregate nominal value of Shares repurchased by the Company under the authority referred to the paragraph headed "General mandate to repurchase Shares" below.

This mandate does not apply to situations where the Directors allot, issue or deal with Shares by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend in accordance with the Articles or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution or pursuant to the exercise of options granted under the Share Option Scheme or upon the exercise of the Over-allotment Option.

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or

- at the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any other applicable laws to be held; or

- when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed "Written resolutions of all the shareholders of the Company passed on 16 October 2005" in Appendix V to this prospectus.

General mandate to repurchase Shares

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (not including Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own Shares" in Appendix V to this prospectus.

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any other applicable laws to be held; or
- when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs is the earliest.

SELECTED AND AUDITED FINANCIAL INFORMATION

The following table summarises the Group's consolidated results for each of the three years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, prepared on the assumption that the current structure had been in place throughout the years/periods under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

Consolidated Profit and Loss Accounts

		Year ended 31 December			Six months ended 30 June	
		2002	**2003**	**2004**	**2004**	**2005**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Sales	*1*	860,863	896,307	903,006	457,531	433,092
Cost of goods sold		(393,723)	(417,771)	(449,318)	(217,681)	(218,824)
Gross profit		467,140	478,536	453,688	239,850	214,268
Other gains – net		1,160	2,399	2,100	1,285	431
Selling and marketing costs		(254,542)	(260,843)	(220,599)	(123,344)	(102,678)
General and administrative expenses		(95,734)	(113,104)	(96,686)	(47,023)	(48,784)
Operating profit		118,024	106,988	138,503	70,768	63,237
Finance costs		(1,507)	(3,933)	(7,111)	(2,944)	(4,744)
Share of loss of an associated company		–	(265)	–	–	–
Profit before income tax		116,517	102,790	131,392	67,824	58,493
Income tax expense		(40,493)	(15,056)	(22,331)	(12,300)	(11,885)
Profit for the year/period		76,024	87,734	109,061	55,524	46,608
Attributable to:						
Equity holders of the Company		60,819	70,333	88,632	44,498	37,556
Minority interest		15,205	17,401	20,429	11,026	9,052
		76,024	87,734	109,061	55,524	46,608
Dividends		52,725	63,270	89,774	–	4,218

Note:

1. Sales represents the revenue from sales of pharmaceutical products, bulk pharmaceuticals and Chinese medicines in the PRC and exports of bulk pharmaceuticals, sales of raw materials and by products and processing income, net of value-added tax and discounts.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by the Group's management and are based upon management's then-current judgement. Note 2 "Principal accounting policies" of the Group's audited financial information, which is included in the accountants' report set out in Appendix I to this prospectus, includes a summary of the principal accounting policies used in the preparation of such financial information. Critical accounting policies are those that are most important to the portrayal of the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimate may differ significantly from management's current judgement. The Directors believe the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Group's financial information.

1. Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Processing income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time proportion basis, using the effective interest method.

2. Trade and other receivables

Trade and other receivables are recognised initially at fair value to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss accounts.

3. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss accounts during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20-40 years
Machinery	8-18 years
Furniture and fixtures	8-10 years
Vehicles	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the profit and loss accounts.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

4. Land use rights

All land in PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the use terms of 50 years using the straight-line method.

5. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

PRINCIPAL COMPONENTS OF THE PROFIT AND LOSS ACCOUNTS

Sales

The sales of the Group is mainly derived from sales of pharmaceutical products and bulk pharmaceuticals manufactured by the Group. The sales of the Group is based on the price and sales volume of each product. Due to the differences in prices between different types of products, the product mix will also affect the sales.

Sales of raw materials and by products mainly represent sales of unused, excess and to-be-expired inventories while process income mainly represents the processing fees received from other pharmaceutical manufacturers.

Cost of goods sold

The cost of goods sold of the Group consists of direct materials, direct labour and manufacturing overheads such as utilities cost, depreciation and other production expenses. Other production expenses include expenses of daily operating cost of workshop, testing fees and labour insurance costs. The cost of direct materials accounts for approximately 70% of the cost of goods sold. Direct materials, including raw materials and packaging materials, consist of self-produced raw materials and purchased raw materials.

Other gains

Other gains include mainly interest income and subsidy income. Interest income represents interest derived from bank deposits while subsidy income represents subsidy received from local government for technology improvement.

Selling and marketing expenses

Selling and marketing expenses include mainly advertising expenses, sales commissions, salaries of sales and marketing staff and office and rental expenses.

General and administrative expenses

General and administrative expenses include mainly staff costs of administrative staff, depreciation of property, plant and equipment, office and rental expenses, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory, provision for impairment of receivables, rental expenses of land use rights and research and development costs.

Finance costs

Finance costs mainly represent interest expenses of bank loans.

Taxation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

No Hong Kong profit tax was provided as the Group had no assessable profit in Hong Kong during the Track Record Period.

According to the "Notice on Issues of Tax Incentive Policy for the Western China Development" (關於西部大開發税收優惠政策問題的通知) jointly issued by Ministry of Finance (財政部), State Administration of Taxation (國家税務總局) and General Administration of Customs (海關總署), domestic enterprises and foreign-invested enterprises which operated in the western part of the PRC and qualified as encouraged enterprise are entitled to preferential enterprise income tax rate at 15% of the assessable income for the period from 2001 to 2010.

Xi'an Lijun, the principal subsidiary of the Company, was qualified and recognised by Economics and Trade Committee of Shaanxi Province (陝西省經濟貿易委員會) as the aforesaid encourage enterprise in the PRC in 2002 and it is therefore entitled to the said preferential enterprise income tax treatment. As a result, Xi'an Lijun was subject to an enterprise income tax rate of 15% for the each of the three years ended 31 December 2004.

On 30 December 2004, Xi'an Lijun has obtained approval to be designated as a sino-foreign joint venture enterprise and therefore ceased to be entitled to the preferential enterprise income tax rate of 15%. In May 2005, the enterprise income tax rate of Xi'an Lijun has been approved to be 24%, effective from 1 January 2005. Pursuant to the "Reply on Enjoying Statutory Reduction and Exemption of Enterprise Income Tax" (享受企業所得税法定減免的覆函) issued by the Foreign-related Branch of Xi'an State Tax Bureau (西安市國家税務局涉外分局) on 13 May 2005, Xi'an Lijun is entitled to an exemption from the enterprise income tax for the first two years and a 50% reduction in the enterprise income tax for the subsequent three years for the years 2005 to 2009.

During the Track Record Period, the enterprise income tax rate of Heng Xin Tang is 33%.

During the Track Record Period, the Group has made accruals for certain expenses which was unpaid and has not yet received the invoices as at the year end, so those expenses could not be deducted for calculation of enterprise income tax according to the tax regulations, which would lead to temporary difference of deferred tax.

MANAGEMENT DISCUSSION AND ANALYSIS FOR OPERATING RESULT

Investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group as at and for the three years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, which is set forth in the accountants' report included as Appendix I to this prospectus (the "Financial Information"). Certain financial information presented in this section have been extracted or derived from management accounts or other records of the Group. Investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.

Overview

The Group is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products which can be broadly categorized into finished medicines and bulk pharmaceuticals.

The Group's finished medicines are used in the treatment of various diseases, in particular, microbial infection and cardiovascular disease, and are mainly in forms of tablet, capsule, granule, injection, powder for injection and lyophilized powder for injection. Though the Group produces a wide variety of pharmaceutical products, it is renowned for in manufacturing of antibiotics. All of the antibiotics currently produced by the Group are prescription medicines. Antibiotics manufactured by the Group include mainly macrolides and cepahlosporins, which are mainly applied in the treatment of various microbial infections. Lijunsha (利君沙), which is a kind of erythromycin ethylsuccinate, is one of the major antibiotics products of the Group and has been awarded "Well-known Trademark" (馳名商標) in year 2002 and "Ten Most Favored Brands Elected by the Public" (十大公眾最喜愛商標) in the years 2002 and 2003 in the PRC.

With the aim to diversify the Group's product range, Xi'an Lijun became a shareholder of Heng Xin Tang in July 2003. Heng Xin Tang is principally engaged in the manufacture of Chinese medicines in the PRC.

The operating result of the Group depends on its sales volume, product price and cost of goods sold. In turn, the sales volume depends on the market demand and the utilization rate/production capacity of the Group.

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the gross profit ratios were approximately 54.3%, 53.4%, 50.2% and 49.5% respectively.

Sales

(1) Sales by product category

The following table sets out the breakdown of the Group's sales by product categories for the three years ended 31 December 2004 and the six months ended 30 June 2004 and 2005:

	For the year ended 31 December						For the six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of finished medicines										
1. Antibiotics										
– Lijunsha (利君沙)	531,870	61.8	529,956	59.1	489,825	54.2	262,336	57.3	203,352	47.0
– Paiqi (派奇)	24,518	2.8	53,400	6.0	72,224	8.0	35,608	7.8	43,594	10.1
– Erythromycin tablets (紅霉素片)	59,169	6.9	65,036	7.3	52,761	5.8	25,846	5.6	28,688	6.6
– Cephalosporins (including Lijunpaitong and Lijunpaishu) (頭孢類(包括利君派同及利君派舒))	23,580	2.7	30,928	3.5	53,663	5.9	18,677	4.1	27,949	6.5
– Limaixian (利邁先)	23,608	2.7	24,269	2.7	12,688	1.4	7,303	1.6	8,609	2.0
– Other antibiotics	23,561	2.7	16,460	1.8	21,365	2.4	12,444	2.7	12,331	2.8
Sub-total	686,306	79.6	720,049	80.4	702,526	77.7	362,214	79.1	324,523	75.0
2. Other finished medicines	123,004	14.3	118,799	13.3	126,061	14.0	60,537	13.2	65,960	15.2
Sub-total	809,310	93.9	838,848	93.7	828,587	91.7	422,751	92.3	390,483	90.2
Sale of bulk pharmaceuticals										
3. Tetracycline hydrochloride (鹽酸四環素)	32,555	3.8	24,392	2.7	20,630	2.3	13,532	3.0	5,444	1.3
4. Erythromycin thiocyanate (高力霉素)	6,000	0.7	21,205	2.4	26,985	3.0	10,636	2.3	17,357	4.0
5. Other bulk pharmaceuticals	5,962	0.7	3,043	0.3	13,227	1.5	2,279	0.5	12,813	3.0
Sub-total	44,517	5.2	48,640	5.4	60,842	6.8	26,447	5.8	35,614	8.3
Sale of Chinese medicines	–	0.0	2,740	0.3	7,600	0.8	5,279	1.2	4,447	1.0
Sale of raw materials and by-products	2,218	0.3	1,293	0.1	1,473	0.2	630	0.1	780	0.2
Processing income	4,818	0.6	4,786	0.5	4,504	0.5	2,424	0.6	1,768	0.3
Total	860,863	100.0	896,307	100.0	903,006	100.0	457,531	100.0	433,092	100.0

The Group's finished medicines are its major category of products. The sales of the finished medicines represent approximately 93.9%, 93.7%, 91.7% and 90.2% of the Group's total sales for the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. Among the Group's finished medicines, antibiotics are the key products and the sales of antibiotics increased from approximately RMB686,306,000 in 2002 to approximately RMB702,526,000 in 2004, representing a CAGR of approximately 1.2%. Since the Group's strategy has been diversifying the product mix and reducing reliance on certain products, the percentage of the total sales of antibiotics to the sales of the Group gradually decreased and accounted for approximately 79.6%, 80.4% and 77.7% of the Group's total sales for the three years ended 31 December 2004. SFDA issued the "Notice on Strengthening Controls on Sale of Antibacterial Agents in Retail Pharmacy Stores" (the "Notice") on 24 October 2003, and the Notice became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians. As a result, the sales of certain antibiotics products of the Group were affected after the introduction of the Notice as all of the antibiotics products of the Group were prescription medicines. Among the Group's five major antibiotics, Lijunsha, Erythromycin tablets and Limaixian are mainly indirectly sold to drug stores, hospitals and clinics whereas Paiqi and Cephalosporins are mainly indirectly sold to hospital and clinics. As such, the Group's sales of Lijunsha, Erythromycin tablets and Limaixian have dropped in year 2004 due to the introduction of the Notice pursuant to which the sale of such products in drug stores in the PRC requires doctor prescriptions. However, the implementation of the Notice has not affected the Group's sales of Paiqi and Cephalosporin in year 2004 as the major ultimate markets of such products were and will continue to be hospitals and clinics in which the usage of such products must be according to doctor prescriptions regardless the implementation of the Notice.

In particular, Lijunsha is the major kind of antibiotics produced by the Group. During the Track Record Period, the sales of Lijunsha experienced a downward trend because the Group has been developing new products and focusing on the promotion of a number of emerging products with the aim of gradually lowering its dependence on Lijunsha. Despite the market demand for Lijunsha is in a downward trend, the Group has maintained a leading position in this market segment and Lijunsha contributed a significant portion of the Group's sales. Sales from Lijunsha were approximately RMB531,870,000, RMB529,956,000, RMB489,825,000 and RMB203,352,000 for the three years ended 31 December 2004 and the six months ended 30 June 2005. For the same period, the percentage of sales from Lijunsha to the Group's total sales decreased gradually and accounted for approximately 61.8%, 59.1%, 54.2% and 47.0% of the Group's total sales, which was mainly a result of the management's effort in expanding market shares of other products and developing new products to expand the Groups' product mix. The reduction in sales from Lijunsha in 2004 and first half of 2005 was mainly due to the implementation of the Notice.

To meet the rising market demand for azithromycin in the PRC, the Group has increased its production capacity of Paiqi. Paiqi is azithromycin in the form of lyophilized powder for injection. Sales from Paiqi increased from approximately RMB24,518,000 in 2002 to approximately RMB72,224,000 in 2004, representing a CAGR of approximately 71.6%. Its percentage to the Group's total sales increased significantly and accounted for approximately 2.8%, 6.0% and 8.0% of the Group's total sales over the same period. For the six months ended 30 June 2005, sales from Paiqi was approximately RMB43,594,000 and accounted for approximately 10.1% of the Group's total sales. In 2004, the Group underwent an expansion project for the production capacity of lyophilized powder for injection. Following the expansion project, the budgeted annual production capacity of lyophilized powder for injection increased from 3,000,000 injections to 10,000,000 injections which contributed to the significant growth in the sales of Paiqi during the Track Record Period.

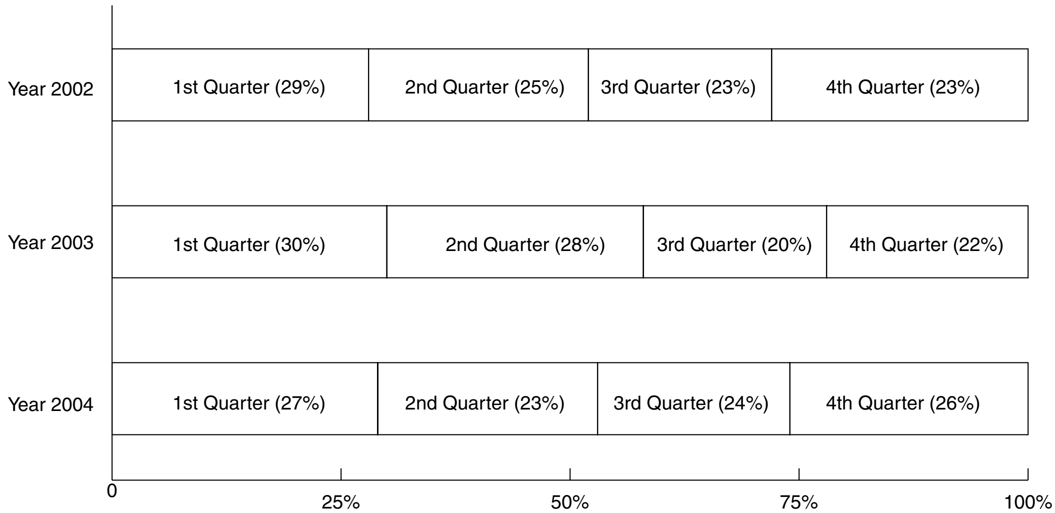
Cephalosporins (including Lijunpaitong and Lijunpaishu) are mainly in the form of powder for injection. Sales from cephalosporins (including Lijunpaitong and Lijunpaishu) increased from approximately RMB23,580,000 in 2002 to approximately RMB53,664,000 in 2004. The increase in sales from cephalosporins was mainly due to the increase in market demand and expansion of production capacity. In the first half of 2003, the Group's workshops for production of powder for injection were under construction for expanding the aggregate annual budgeted production capacity from 4,000,000 injections to 8,000,000 injections. In 2004, such annual budgeted production capacity were further expanded to 13,800,000 injections. Due to increase in its production volume, the Group's sales of cephalosporins (including Lijunpaitong and Lijunpaishu) increased to approximately of RMB53,664,000 representing approximately 5.9% of the Group's total sales for the year ended 31 December 2004. For the six months ended 30 June 2005, sales from Cephalosporins (including Lijunpaitong and Lijunpaishu) was approximately RMB27,949,000 and accounted for 6.5% of the Group's sales.

The Group's sales from its other antibiotics such as erythromycin tablets and Limiaxian decreased gradually from 2003 to 2004. The decrease in sales of erythromycin tablets and Limiaxian for the year ended 31 December 2004 was mainly resulted from reduction in selling prices of these products and the impact of the Notice. The selling price of Limaixian was reduced as a result of the reduction in the ceiling retail price of such type of products by the relevant government authority whereas the selling prices of erythromycin tablets were reduced due to keen market competition.

Sales from bulk pharmaceuticals accounted for approximately 5.2%, 5.4%, 6.8% and 8.3% of the Group's total sales for the three years ended 31 December 2004 and the six months ended 30 June 2005. Due to decreasing market demand, the Group's sales from tetracycline hydrochloride decreased from approximately RMB32,555,000 for the year ended 31 December 2002 to approximately RMB20,630,000 for the year ended 31 December 2004, representing a decrease of approximately RMB11,925,000.

(2) Seasonality

The following chart illustrates the seasonality of the Group's sales during the Track Record Period:



The above chart illustrates that first and fourth quarters of each year were generally peak seasons except for the outbreak of SARS during the first and second quarter of 2003. The Directors believed that the lower temperatures in first and fourth quarter of each year contributed to larger sales of antibiotics of the Group.

(3) Sales by geographical breakdown

	For the year ended 31 December						For the six months ended 30 June 2005	
	2002		2003		2004			
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PRC	833,410	96.8	854,626	95.3	875,887	97.0	420,746	97.1
Exports	27,453	3.2	41,681	4.7	27,119	3.0	12,346	2.9
Total	860,863	100	896,307	100	903,006	100.0	433,092	100.0

Over 90% of the Group's sales are generated in the PRC. Only a small portion of Group's products, all of which were bulk pharmaceuticals, were exported.

Production capacity

The production lines of tablets, granules, capsules, lyophilized powder for injection and powder for injection have been expanded to increase their respective production capacity to meet market demands during the Track Record Period.

Pharmaceutical products

The following table illustrates the corresponding production capacities and the utilization rates of the Group's production facilities for pharmaceutical products during the Track Record Period:

		Year ended 31 December											
		2002			2003			2004			Six months ended 30 June 2005		
Product form	Unit	Budgeted annual production capacity (Note 1)	Actual production amount	Utilisation rate (%)	Budgeted annual production capacity (Note 1)	Actual production amount	Utilisation rate (%)	Budgeted annual production capacity (Note 1)	Actual production amount	Utilisation rate (%)	Budgeted annual production capacity (Note 1)	Actual production amount	Utilisation rate (%)
Tablets *(Note 2)*	10,000 tablets	600,000	580,396	96.7	600,000	607,658	101.3	600,000	686,193	114.4	300,000	362,863	121.0
Granules	10,000 packets	7,000	6,724	96.1	9,500	9,201	96.9	10,000	9,389	93.9	5,000	3,691	73.8
Capsules	10,000 capsules	2,400	2,405	100.2	3,000	2,645	88.2	5,000	3,844	76.9	2,500	2,189	87.6
Injection	10,000 injection	8,000	9,402	117.5	8,000	8,069	100.9	8,000	6,273	78.4	4,000	3,532	88.3
Powder for injection	10,000 injection	400	482	120.5	800	674	84.3	1,380	1,276	92.5	690	826	119.7
Lyophilized powder for injection	10,000 injection	300	463	154.3	800	1,027	128.4	1,000	1,312	131.2	500	874	174.8
Tetracycline Hydrochloride	Tonnes	300	275	91.7	300	223	77.7	300	212	70.7	150	72	48.0

Notes:

1. Budgeted annual production capacity is arrived at based on normal working hours. Utilization rate which exceeds 100% was mainly attributable to overtime of production.

2. The actual production amount of Lijunsha tablets were approximately 1,275,000,000, 1,400,000,000, 1,071,000,000 and 415,000,000 for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively.

Chinese medicines

Immediately after Xi'an Lijun became a 51% shareholder of Heng Xin Tang in 2003, Heng Xin Tang produced its Chinese medicines by using the old production line, which was not up to the standard of the GMP. As a result, in the mid of 2004, Heng Xin Tang ceased its production and the production facilities of Heng Xin Tang underwent certain restructurings in order to comply with the GMP which became compulsory in July 2004. Heng Xin Tang had obtained the GMP certificate for its production facilities in December 2004 and had commenced production in January 2005.

The following table illustrates the corresponding capacities and the utilization rates of the Heng Xin Tang for the period immediately after Xi'an Lijun becoming the shareholder of Heng Xin Tang to 31 December 2003, for the period from 1 January 2004 to immediately before the restructuring of the production facilities of Heng Xin Tang in 2004 in order to comply with the GMP and for the six months ended 30 June 2005:

		Period immediately after Xi'an Lijun becoming the shareholder of Heng Xin Tang to 31 December 2003			Year ended 31 December 2004			Six months ended 30 June 2005		
Product form	**Unit**	**Budgeted production capacity** *(Notes 1 & 3)*	**Actual production amount**	**Utilisation rate** *(%)*	**Budgeted production capacity** *(Notes 2 & 3)*	**Actual production amount**	**Utilisation rate** *(%)*	**Budgeted production capacity** *(Note 3)*	**Actual production amount**	**Utilisation note** *(%)*
Tablets	10,000 tablets	8,000	400	5.0	8,000	2,400	30.0	7,500	59	0.8
Granules	10,000 packets	1,800	15	0.83	1,800	2,703	150.2	1,150	0	0
Powder	10,000 packets	275	74	26.9	275	128	46.5	150	7	4.7
Liquid pills	10,000 packets	2,500	648	25.9	2,500	2,901	116.0	1,700	17	1.0
Condensed pills	10,000 bottles	90	85	94.4	90	22	24.4	100	31	31.0
Large honeyed pills	10,000 pills	1,000	587	58.7	1,000	1,140	114.0	600	10	1.7

Notes:

1. It represents the approximate production capacity of Heng Xin Tang for the period immediately after Xi'an Lijun becoming the shareholder of Heng Xin Tang to 31 December 2003.

2. It represents the approximate production capacity of Heng Xin Tang for the period from 1 January 2004 to immediately before the restructuring of the production facilities of Heng Xin Tang in order to comply with the GMP.

3. Budgeted production capacity is arrived at based on normal working hours. Utilisation rate which exceeds 100% was mainly due to overtime of production.

Cost of goods sold

For the three years ended 31 December 2004 and the six months ended 30 June 2005, the cost of goods sold amounted to approximately RMB393,723,000, RMB417,771,000, RMB449,318,000 and RMB218,824,000 respectively. Cost of goods sold comprises direct materials, direct labour, overhead such as utilities cost, depreciation and others.

The following table sets out the composition of cost of goods sold:

	For the year ended 31 December						For the six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Direct materials	264,629	67.2	289,768	69.4	309,058	68.8	151,178	69.5	156,531	71.6
Direct labour	41,715	10.6	36,669	8.8	39,850	8.9	19,320	8.9	20,846	9.5
Overhead										
– Utilities cost	38,473	9.8	40,994	9.8	42,926	9.5	21,517	9.9	22,087	10.1
– Depreciation	16,330	4.1	22,536	5.4	27,371	6.1	13,125	6.0	12,077	5.5
– Others	32,576	8.3	27,804	6.6	30,113	6.7	12,541	5.7	7,283	3.3
Total	393,723	100	417,771	100	449,318	100	217,681	100	218,824	100

The percentage of cost of direct material to the cost of goods sold remained fairly stable over the Track Record Period. The percentage of cost of direct labour to the cost of goods sold was slightly higher in the year 2002, which was mainly resulted from additional compensation wages incurred in the year 2002. The percentage of utilities cost to the cost of goods sold had been stable in spite of the increase in the cost of electricity and water in general as the Group had implemented utilities saving measures. The percentage of depreciation to the cost of goods sold had increased from 2002 to 2004 because of purchase of property, plant and equipment for compliance with the GMP and expansion of production capacities.

REVIEW OF OPERATING RESULTS

Comparison between the six months ended 30 June 2005 and 30 June 2004

Sales

For the six months ended 30 June 2005, the sales of the Group amounted to approximately RMB433,092,000 representing a decrease of approximately 5.3% as compared with the sales amounted to approximately RMB457,531,000 for the six months ended 30 June 2004. The decrease in sales was mainly attributable to the decreasing trend of demand for erythromycin ethylsuccinate in the PRC and the impact of the Notice which became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians. The sales of antibiotics decreased from approximately RMB362,214,000 for the six months ended 30 June 2004 to RMB324,523,000 for the six months ended 30 June 2005, representing a decrease of approximately RMB37,691,000 or approximately 10.4%. The sales of antibiotics accounted for approximately 75.0% of the Groups total sales for the six months ended 30 June 2005. In particular, sales of Lijunsha decreased from approximately RMB262,336,000 for the six months ended 30 June 2004 to approximately RMB203,352,000 for the six months ended 30 June 2005, representing a decrease of approximately RMB58,984,000 or approximately 22.5%. The sales of Paiqi increased from approximately RMB35,608,000 for the six months ended 30 June 2004 to approximately RMB43,594,000 for the six months ended 30 June 2005, representing an increase of approximately RMB7,986,000 or approximately 22.4%. The increase was mainly attributable to increasing market demand for Paiqi.

Cost of goods sold

For the six months ended 30 June 2005, the cost of goods sold of the Group amounted to approximately RMB218,824,000. The cost of direct materials, direct labour and overhead represented approximately 71.6%, 9.5% and 18.9% of the total cost of goods sold respectively. For the six months ended 30 June 2004, the total cost of goods sold amounted to approximately RMB217,681,000. The cost of direct materials, direct labour and overhead represented approximately 69.5%, 8.9% and 21.6% of the total cost of goods sold respectively.

Gross profit and gross profit margin

Gross profit decreased from approximately RMB239,850,000 for the six months ended 30 June 2004 to approximately RMB214,268,000 for the six months ended 30 June 2005, representing an approximately 10.7% decrease. Overall gross profit margin decreased from approximately 52.4% for the six months ended 30 June 2004 to approximately 49.5% for the six months ended 30 June 2005. The decrease in sales of Lijunsha, the reduction of selling prices of some of the Group's products like Limaixian, erythromycin tablets and the increase in overhead costs contributed to the decrease in overall gross profit margin.

Other gains

The other gains decreased from approximately RMB1,285,000 for the six months ended 30 June 2004 to approximately RMB431,000 for the six months ended 30 June 2005 due to decline in interest income.

Selling and marketing expenses

The selling and marketing expenses amounted to approximately RMB102,678,000 for the six months ended 30 June 2005. It mainly comprised of advertising expenses of approximately RMB23,667,000, sales commissions of approximately RMB43,414,000, salaries expenses of sales and marketing staff of approximately RMB17,360,000, and office and rental expenses of approximately RMB9,815,000. The selling and marketing expenses amounted to approximately RMB123,344,000 for the six months ended 30 June 2004. It mainly comprised of advertising expenses of approximately RMB53,030,000, sales commissions of approximately RMB40,642,000, salaries of sales and marketing staff of approximately RMB12,356,000, office and rental expenses of approximately RMB7,563,000.

The decrease in selling and marketing expense for the six months ended 30 June 2005 compared with the six months ended 30 June 2004 was mainly due to the Group's reducing its advertising expense in mass media and increasing its marketing efforts directly to the distributors and ultimate customers such as hospitals and clinics as a result of the implementation of the Notice which became effective on 1 July 2004.

General and administrative expenses

The administrative expenses amounted to approximately RMB48,784,000 for the six months ended 30 June 2005. It mainly comprised of salaries expenses of general and administrative staff and management of approximately RMB14,605,000, depreciation of approximately RMB5,062,000, office and rental expenses of approximately RMB3,842,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB5,942,000, provision for impairment of receivables of approximately RMB992,000, rental expenses of land use rights of approximately RMB2,702,000 and research and development expenses of RMB2,680,000. The general and administrative expenses amounted to approximately RMB47,023,000 for the six months ended 30 June 2004. It mainly comprised of salaries expenses of administrative staff and management of approximately RMB14,473,000, depreciation of approximately RMB4,768,000, office and rental expenses of approximately RMB3,521,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB5,337,000, provision for impairment of receivables of approximately RMB704,000, rental expenses of land use rights of approximately RMB3,448,000, research and development expenses of RMB3,085,000 and impairment charge for property, plant and equipment of approximately RMB865,000.

Operating profit

Based on the above factors, the Group's operating profit decreased from approximately RMB70,768,000 for the six months ended 30 June 2004 to approximately RMB63,237,000 for the six months ended 30 June 2005. Operating profit margin of the Group (stated as the percentage of sales) decreased from approximately 15.5% to 14.6%.

Finance costs

The Groups finance cost increased from approximately RMB2,944,000 for the six months ended 30 June 2004 to approximately RMB4,744,000 for the six months ended 30 June 2005. It was mainly attributable to the increase of average balance of back borrowings during the six months ended 30 June 2005 as compared with the average balance of bank borrowings during the six months ended 30 June 2004.

Profit before income tax

Profit before income tax decreased from approximately RMB67,824,000 for the six months ended 30 June 2004 to approximately RMB58,493,000 for the six months ended 30 June 2005, representing an approximately 13.8% decrease. The decrease in profit before income tax was mainly attributable to the decrease of gross profit.

Income tax expense

The income tax expense decreased from approximately RMB12,300,000 for the six months ended 30 June 2004 to approximately RMB11,885,000 for the six months ended 30 June 2005. However, effective tax rate increased from approximately 18.1% for the six months ended 30 June 2004 to approximately 20.3% for the six months ended 30 June 2005 due to the write-down of deferred tax asset of approximately RMB8.6 million as a result of change in applicable enterprise income tax rate of Xi'an Lijun from 15% to 0%.

For the six months ended 30 June 2004, the enterprise income tax rates of Xi'an Lijun and Heng Xin Tang were 15% and 33% respectively.

For the six months ended 30 June 2005, the enterprise income tax rates of Xi'an Lijun and Heng Xin Tang were 24% and 33% respectively. However, pursuant to the "Reply on Enjoying Statutory Reduction and Exemption of Enterprise Income Tax" (享受企業所得税法定減免的覆函) issued by the Foreign-related Branch of Xi'an State Tax Bureau (西安市國家税務局涉外分局) on 13 May 2005, Xi'an Lijun is entitled to an exemption from the enterprise income tax for the first two years and a 50% reduction in the enterprise income tax for the subsequent three years for the years 2005 to 2009.

Net profit attributable to equity holders of the Company for the period

The net profit attributable to equity holders of the Company decreased from approximately RMB44,498,000 for the six months ended 30 June 2004 to approximately RMB37,556,000 for the six months ended 30 June 2005. The net profit margin (stated in its percentage of sales) decreased from approximately 9.7% for the six months ended 30 June 2004 to approximately 8.7% for the six months ended 30 June 2005.

Profit attributable to minority interest

The profit attributable to minority interest for the six months ended 30 June 2004 decreased from approximately RMB11,026,000 to approximately RMB9,052,000 for the six months ended 30 June 2005.

Comparison between the year ended 31 December 2004 and the year ended 31 December 2003

Sales

For the year ended 31 December 2004, the sales of the Group amounted to approximately RMB903,006,000 representing an increase of approximately 0.7% as compared with the sales amounted to approximately RMB896,307,000 for the year ended 31 December 2003. The stable sales was mainly attributable to the decrease in sales of antibiotics offset by increase in sales in other finished medicines, bulk pharmaceuticals and Chinese medicines. The sales of antibiotics decreased from approximately RMB720,049,000 for the year ended 31 December 2003 to RMB702,526,000 for the year ended 31 December 2004, representing a decrease of approximately RMB17,523,000 or approximately 2.4%. The sales of antibiotics accounted for approximately 77.7% of the Group's total sales for the year ended 31 December 2004. In particular, the sales of Lijunsha decreased from approximately RMB529,956,000 for the year ended 31 December 2003 to approximately RMB489,825,000 for the year ended 31 December 2004, representing a decrease of approximately RMB40,131,000 or approximately 7.6%. The decrease was mainly attributable to the decreasing trend of demand for erythromycin ethylsuccinate in the PRC and the impact of the Notice which became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians.

As such, the Group's sales of Lijunsha, Erythromycin tablets and Limaixian have dropped in year 2004 due to the introduction of the Notice pursuant to which the sale of such products in drug stores in the PRC requires doctor prescriptions after the Notice became effective. However, implementation of the Notice has not affected the Group's sales of Paiqi and Cephalosporin in year 2004 as the major ultimate markets of such products were and will continue to be hospitals and clinics in which the usage of such products must be according to doctor prescriptions regardless the implementation of the Notice. The sales of Paiqi increased from approximately RMB53,400,000 for the year ended 31 December 2003 to approximately RMB72,224,000 for the year ended 31 December 2004, representing an increase of approximately RMB18,824,000 or approximately 35.3%. On the other hand, the sales of Cephalosporins increased from approximately RMB30,928,000 to approximately RMB53,664,000, representing an increase of approximately RMB22,736,000 or approximately 73.5%. The increase was mainly attributable to the expansion of production lines of lyophilized powder for injection and powder for injection in 2003 to accommodate the market demand of Paiqi and Cephalsporins respectively.

Revenue from sales of raw materials and by products and process income maintained at similar level to that of 2003.

Cost of goods sold

For the year ended 31 December 2004, the cost of goods sold of the Group amounted to approximately RMB449,318,000. The cost of direct materials, direct labour and overhead represented approximately 68.8%, 8.9% and 22.3% of the total cost of goods sold respectively. For the year ended 31 December 2003, the total cost of goods sold amounted to approximately RMB417,771,000. The cost of direct materials, direct labour and overhead represented approximately 69.4%, 8.8% and 21.8% of the total cost of goods sold respectively. The increase in overhead was mainly attributable to increasing depreciation due to the purchase of property, plant and equipment for expansion in production capacities in 2004.

Gross profit and gross profit margin

Gross profit decreased from approximately RMB478,536,000 for the year ended 31 December 2003 to approximately RMB453,688,000 for the year ended 31 December 2004, representing an approximately 5.2% decrease.

Overall gross profit margin decreased from approximately 53.4% for the year ended 31 December 2003 to approximately 50.2% for the year ended 31 December 2004. In spite of stable sales, diversified product mix and expanded production capacities, the reduction of selling prices of some of the Group's products like Limaixian and erythromycin tablets, the increase in sales of bulk pharmaceuticals such as erythromycin thiocyanate with lower gross profit margin and the increase in overhead costs mainly contributed to the decrease in overall gross profit margin.

Other gains

The other gains decreased slightly from approximately RMB2,399,000 for the year ended 31 December 2003 to approximately RMB2,100,000 for the year ended 31 December 2004. It was mainly due to the decrease in subsidy income of approximately RMB750,000.

Selling and marketing expenses

The selling and marketing expenses amounted to approximately RMB220,599,000 for the year ended 31 December 2004. It mainly comprised of advertising expenses of approximately RMB79,854,000, sales commission of approximately RMB83,646,000, salaries expenses of sales and marketing staff of approximately RMB23,156,000, and office and rental expenses of approximately RMB11,242,000. The selling and marketing expenses amounted to approximately RMB260,843,000 for the year ended 31 December 2003. It mainly comprised of advertising expenses of approximately RMB134,545,000. sales commission of approximately RMB77,279,000, salaries of sales and marketing staff of approximately RMB18,779,000, office and rental expenses of approximately RMB8,123,000.

The decrease in selling and marketing expense for the year ended 31 December 2004 compared with the year ended 31 December 2003 was mainly due to the Group's reducing its advertising expense in the second half of year 2004 and increasing its marketing efforts directly to the distributors and ultimate customers such as hospitals and clinics as a result of the implementation of the Notice which became effective on 1 July 2004.

General and administrative expenses

The administrative expenses amounted to approximately RMB96,686,000 for the year ended 31 December 2004. It mainly comprised of salaries expenses of general and administrative staff and management of approximately RMB34,071,000, depreciation of approximately RMB10,063,000, office and rental expenses of approximately RMB7,793,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB13,105,000, provision for impairment of receivables of approximately RMB1,404,000, rental expenses of land use rights of approximately RMB6,826,000, research and development expenses of approximately RMB6,166,000 and off-set by reversal of write-down of inventory of approximately RMB4,556,000. The administrative expenses amounted to approximately RMB113,104,000 for the year ended 31 December 2003. It mainly comprised of salaries expenses of administrative staff and management of approximately RMB27,907,000, depreciation of approximately RMB8,400,000, office and rental expenses of approximately RMB8,734,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB13,341,000, provision for impairment of receivables of approximately RMB6,464,000, rental expenses of land use rights of approximately RMB6,826,000, research and development expenses of RMB7,505,000 and impairment charge for property, plant and equipment of approximately RMB5,336,000. The decrease in general and administrative expenses for the year ended 31 December 2004 as compared with that for the year ended 31 December 2003 was mainly attributable to the decrease in impairment of property, plant and equipment, provision for impairment of receivables and reversal of write-down of inventory.

Operating profit

Based on the above factors, the Group's operating profit increased from approximately RMB106,988,000 for the year ended 31 December 2003 to approximately RMB138,503,000 for the year ended 31 December 2004. Operating profit margin of the Group (stated as the percentage of sales) increased from approximately 11.9% to 15.3%.

Finance costs

The Group's finance cost decreased from approximately RMB3,933,000 for the year ended 31 December 2003 to approximately RMB7,111,000 for the year ended 31 December 2004. It was mainly attributable to the significant increase in interest expense as a result of the increase in the bank loans.

Profit before income tax

Profit before income tax increased from approximately RMB102,790,000 for the year ended 31 December 2003 to approximately RMB131,392,000 for the year ended 31 December 2004, representing an increase of approximately 27.8%. The increase in profit before income tax was mainly attributable to the reduction of selling and marketing expenses and general and administrative expenses offset by a slight decrease in gross profit.

Income tax expense

The income tax expense increased from approximately RMB15,056,000 for the year ended 31 December 2003 to approximately RMB22,331,000 for the year ended 31 December 2004. Effective tax rate increased from approximately 14.6% for the year ended 31 December 2003 to approximately 17.0% for the year ended 31 December 2004. In 2004, the effective tax rate of the Group was slightly higher than the applicable enterprise income tax rate of Xi'an Lijun because of non-deductible advertising expenses. In 2003, the effective tax rate of the Group was lower than the applicable enterprise income tax rate of Xi'an Lijun due to approval of loss of assets.

For both the years ended 31 December 2003 and 2004, the enterprise income tax rates of Xi'an Lijun and Heng Xin Tang were 15% and 33% respectively.

Net profit attributable to equity holders of the Company for the year

The net profit attributable to equity holders of the Company increased from approximately RMB70,333,000 for the year ended 31 December 2003 to approximately RMB88,632,000 for the year ended 31 December 2004. The net profit margin (stated in its percentage of sales) increased from approximately 7.8% for the year ended 31 December 2003 to approximately 9.8% for the year ended 31 December 2004.

Profit attributable to minority interest

The profit attributable to minority interest for the year ended 31 December 2003 increased from approximately RMB17,401,000 to approximately RMB20,429,000 for the year ended 31 December 2004.

Comparison between the year ended 31 December 2003 and the year ended 31 December 2002

Sales

Total sales of the Group in 2003 amounted to approximately RMB896,307,000, representing an increase of approximately 4.1% as compared with the sales of approximately RMB860,863,000 for the year ended 31 December 2002. Such increase was mainly attributable to the outbreak of SARS which boosted the sales of antibiotics in the first and second quarters of 2003 and expansion of production capacities. The sales of antibiotics increased from approximately RMB686,306,000 for the year ended 31 December 2002 to approximately RMB720,049,000 for the year ended 31 December 2003, representing an increase of approximately RMB33,743,000 or approximately 4.9%. The sales of antibiotics represented approximately 79.6% and 80.4% of the Group's sales for the year ended 31 December 2002 and 2003 respectively.

Particularly, the sales of Paiqi increased significantly from approximately RMB24,518,000 for the year ended 31 December 2002 to approximately RMB53,400,000 for the year ended 31 December 2003, representing an increase of approximately RMB28,882,000 or approximately 117.8%. It was mainly attributable to the fact that the demands for Paiqi continued to grow and the Group expanded the production capacity of lyophilized powder for injection in 2003.

On the other hand, the sales of Lijunsha decreased slightly from approximately RMB531,870,000 for the year ended 31 December 2002 to approximately RMB529,956,000 for the year ended 31 December 2003 due to decreasing demand of erythromycin ethylyccinate in the PRC.

Sales of raw materials and by products have decreased by approximately RMB925,000 from approximately RMB2,218,000 for the year ended 31 December 2002 to approximately RMB1,293,000 for the year ended 31 December 2003. The decrease was mainly attributed to the fact that less unused, excess and to-be-expired inventories were sold as a result of the improvement in the raw materials control. Revenue from process income maintained at similar level to that of last year.

Cost of goods sold

Cost of goods sold increased from approximately RMB393,723,000 for the year ended 31 December 2002 to approximately RMB417,771,000 for the year ended 31 December 2003, representing an increase of approximately 6.1%. For the year ended 31 December 2003, the cost of direct materials, direct labour and overheads accounted for approximately 69.4%, 8.8% and 21.8% of the total cost of goods sold respectively. For the year ended 31 December 2002, the total cost of goods sold amounted to approximately RMB393,723,000, the cost of direct materials, direct labour and overheads accounted for approximately 67.2%, 10.6% and 22.2% of the total cost of goods sold respectively.

Gross profit and gross profit margin

Gross profit increased from approximately RMB467,140,000 for the year ended 31 December 2002 to approximately RMB478,536,000 for the year ended 31 December 2003, representing an increase of approximately 2.4%.

In spite of the adjustment in the Group's product mix and expansion of production capacities of certain high margin products, the overall gross profit margin decreased slightly from approximately 54.3% for the year ended 31 December 2002 to approximately 53.4% for the year ended 31 December 2003. It was mainly due to the fact that production overhead had increased substantially in 2003 as a result of rising depreciation caused by the purchases of production equipments for compliance of the GMP.

Other gains

Other gains increased from approximately RMB1,160,000 for the year ended 31 December 2002 to approximately RMB2,399,000 for the year ended 31 December 2003, which was mainly attributable to the subsidy income of RMB850,000 in 2003.

Selling and marketing expenses

The selling and marketing expenses amounted to approximately RMB260,843,000 for the year ended 31 December 2003. It mainly comprised of advertising expenses of approximately RMB134,545,000, sales commissions of approximately RMB77,279,000, salaries expenses of sales and marketing staff of approximately RMB18,779,000 and office and rental expenses of approximately RMB8,123,000.

The selling and marketing expenses amounted to approximately RMB254,542,000 for the year ended 31 December 2002. It mainly comprised of advertising expenses of approximately RMB125,446,000, sales commissions of approximately RMB67,348,000, salaries expenses of sales and marketing staff of approximately RMB16,103,000 and office and rental expenses of approximately RMB6,088,000.

The increase in selling and marketing expenses in 2003 as compared with that in 2002 was mainly due to the increase in advertising expenses and sales commissions to boost sales partly offset by reduction of other selling and marketing expenses.

General and administrative expenses

The general and administrative expenses amounted to approximately RMB113,104,000 for the year ended 31 December 2003. It mainly comprised of salaries expenses of administrative staff and management of approximately RMB27,907,000, depreciation of approximately RMB8,400,000, office and rental expenses of approximately RMB8,734,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB13,341,000, provision for impairment of receivables of approximately RMB6,465,000, rental expenses of land use rights of approximately RMB6,826,000, research and development expenses of approximately RMB7,505,000 and impairment charge for property, plant and equipment of approximately RMB5,335,000.

The general and administrative expenses amounted to approximately RMB95,734,000 for the year ended 31 December 2002. It mainly comprised of salaries expenses of administrative staff and management of approximately RMB20,201,000, depreciation of approximately RMB7,428,000, office and rental expenses of approximately RMB7,008,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB15,831,000, provision for impairment of receivables of approximately RMB4,388,000, rental expenses of land use rights of approximately RMB6,826,000 and research and development expenses of approximately RMB6,197,000.

The increase in general and administrative expenses in 2003 as compared with that in 2002 was mainly attributable to the increase in salaries expenses of administrative staff as a result of increase in salary and bonuses partly offset by reduction of other administrative expenses.

Operating profit

Due to the reasons mentioned above, the Group's operating profit decreased from approximately RMB118,024,000 for the year ended 31 December 2002 to approximately RMB106,988,000 for the year ended 31 December 2003 while the operating profit margin (stated in its percentage of sales) of the Group decreased from approximately 13.7% to 11.9%.

Finance costs

The finance cost of the Group for the year ended 31 December 2002 and the year ended 31 December 2003 were approximately RMB1,507,000 and approximately RMB3,933,000 respectively, representing an increase of approximately RMB2,426,000. The significant increase was a result of the increase in the interest expenses caused by increasing bank loans.

Profit before income tax

The profit before income tax decreased from approximately RMB116,517,000 for the year ended 31 December 2002 to approximately RMB102,790,000 for the year ended 31 December 2003, representing a decrease of approximately RMB13,727,000.

Income tax expense

Income tax expense decreased from approximately RMB40,493,000 for the year ended 31 December 2002 to approximately RMB15,056,000 for the year ended 31 December 2003. The effective tax rate decreased from approximately 34.8% for the year ended 31 December 2002 to approximately 14.6% for the year ended 31 December 2003. In 2002, the Group incurred a write-down of deferred tax asset of approximately RMB22 million due to change in applicable enterprise income tax rate of Xi'an Lijun from 33% to 15%, which increased the income tax expense in 2002. The Group's effective tax rate in 2002 was higher than 15% due to the write-down of deferred tax asset and un-approved provision for impairment of receivables and fixed asset impairment.

For both the years ended 31 December 2002 and 2003, the enterprise income tax rates of Xi'an Lijun and Heng Xin Tang were 15% and 33% respectively.

Net profit attributable to equity holders of the Company for the year

Net profit attributable to equity holders of the Company increased from approximately RMB60,819,000 for the year ended 31 December 2002 to approximately RMB70,333,000 for the year ended 31 December 2003. The net profit margin (stated in its percentage of sales) for the Group increased from approximately 7.1% for the year ended 31 December 2002 to approximately 7.8% for the year ended 31 December 2003.

Net profit attributable to minority interest

The profit attributable to minority interest for the year ended 31 December 2002 increased from approximately RMB15,205,000 to approximately RMB17,401,000 for the year ended 31 December 2003.

ANALYSIS OF FINANCIAL POSITION

Inventory

The following table sets out the summary of the Group's inventory turnover period during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2002	**2003**	**2004**	**2005**
Inventory turnover period *(Note)*	71	76	71	70

Note: The inventory turnover period is arrived at by dividing average inventory by cost of goods sold and then multiplying by 365 for the three years ended 31 December 2004 and 180 for the six months ended 30 June 2005. Average inventory is arrived at by dividing the sum of the inventory at the beginning of year/period and that at the end of the year/period by 2.

The inventory turnover period of the Group increased slightly in 2003 as the Group increased the inventory level in view of SARS factor in 2003.

For the year ended 31 December 2004, inventory turnover period decreased substantially due to the strengthening in inventory management of the Group which strictly based on market demands. For the six months ended 30 June 2005, inventory turnover period remained stable at 70 days.

Trade and bills receivables

Turnover days of trade and bills receivables

The turnover days of trade and bills receivables of the Group for the Track Record Period are summarised in the table below:

	Year ended 31 December			Six months ended 30 June
	2002	**2003**	**2004**	**2005**
Turnover days of trade and bills receivables *(Note)*	14	18	43	66

Note: The turnover days of trade and bills receivables is arrived at by dividing the average trade and bills receivables by sales and then multiplying by 365 for the three years ended 31 December 2004 and 180 for the six months ended 30 June 2005. The average trade and bills receivables is arrived at by dividing the sum of trade and bills receivables at the beginning of the year/period and the trade and bills receivables at the end of the year/period by 2.

The turnover days of trade and bills receivables increased from 14 days in year 2002 to 43 days in year 2004 and 66 days in the six months ended 30 June 2005.

The Notice was issued by SFDA on 24 October 2003 and became effective on 1 July 2004. Pursuant to the Notice, antibacterial agents (including antibiotics, sulfonamides, quinolones, drugs acting on tuberculosis and antifungal agents) not listed in the OTC medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practising physicians. Due to the impact of the Notice on the Group's sales performance as mentioned in the sub-paragraph headed "Sales" in the paragraph headed "Sales and marketing" in the section headed "Business" in this prospectus, the Group and its distributors have focused their sales efforts in relation to antibiotics on hospitals and clinics to encourage the use of the Group's antibiotics. The hospitals and clinics usually demanded longer credit terms. In turn, the Group granted longer credit terms to its distributors, which led to the increase in the turnover days of trade and bills receivables in the year 2004 and the six months ended 30 June 2005.

Aging analysis of trade and bills receivables

The aging analysis of trade and bills receivables of the Group during the Track Record Period is as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
Within 3 months	40.8%	52.3%	79.5%	61.7%
4 to 6 months	1.5%	4.2%	6.2%	14.2%
7 months to 12 months	5.9%	2.1%	1.5%	11.7%
1 to 2 years	7.0%	5.6%	1.5%	2.0%
2 to 3 years	18.8%	4.6%	2.1%	0.9%
More than 3 years	26.0%	31.2%	9.2%	9.5%
Total	100%	100%	100%	100%

The Group has established the credit assessment system and continuously monitor the creditability of its customers. Most of its customers have to settle their payments within 90 days. With a view to expand its market share, the Group granted longer credit terms to its customers. Hence, the balance of trade and bills receivables increased, representing approximately 11.0% and 20.1% of the sales income for the year ended 31 December 2003 and 2004 respectively.

The Group has adopted a policy for provision of impairment of receivables pursuant to which full provision will be made for aged balances that are overdue for more than three years. This policy was set up by the Group based on its experience in settlement patterns and recoverability of its debtors over time. The Group also reviews the collectibility of each trade and bills receivable balance individually and specific provision will be provided for individual trade and bills receivable balance even if its aging is within three years.

The balance of provision for impairment of receivables were approximately RMB36,501,000, RMB41,905,000, RMB27,273,000 and RMB27,583,000 respectively for each of the three years ended 31 December 2004 and six months ended 30 June 2005. The sharp decrease in the provision for impairment of receivables as at 31 December 2004 was due to the approval obtained from the Bureau of Finance of Shaanxi Province to write off unrecoverable receivables outstanding for a long period.

Trade and bills payables

Turnover days of trade and bills payables

The turnover days of trade and bills payables of the Group for the Track Record Period are summarised in the table below:

	Year ended 31 December			Six months ended 30 June
	2002	**2003**	**2004**	**2005**
Turnover days of trade and bills payables *(Note)*	31	32	36	41

Notes: The turnover days of trade and bills payables is arrived at by dividing the average trade and bills payables by cost of goods sold and then multiplying by 365 for the three years ended 31 December 2004 and 180 for the six months ended 30 June 2005. The average trade and bills payable is arrived at by dividing the sum of the trade and bills payables at the beginning of the year/period and the trade and bills payables at the end of the year/period by 2.

Turnover days of trade and bills payables remained stable in 2002 and 2003. The Group's turnover days of trade and bills payables increased for the year ended 31 December 2004 and six months ended 30 June 2005 as the Group had endeavoured to utilise the credit terms offered by suppliers as much as possible since 2004 so as to better utilise the Group's working capital.

Aging analysis of trade and bills payables

The aging analysis of trade and bills payables of the Group for the Track Record Periods is as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
Within 3 months	91.6%	90.9%	88.7%	90.6%
4 to 6 months	0.6%	1.1%	1.2%	2.3%
7 to 12 months	0.6%	1.4%	4.8%	1.4%
1 to 3 years	3.9%	3.4%	2.3%	2.7%
More than 3 years	3.3%	3.2%	3.0%	3.0%
Total	100%	100%	100%	100%

Trades payables are mainly related to purchases from suppliers. Credit period offered by suppliers normally ranges from 30 to 90 days from the date of deliver, and purchase amounts are generally settled by cheques and bank transfers. The Group continuously supervises the trade and bills payable balances. The Group's strengthening control on cash outflow and its policy of utilising credit terms offered by suppliers as much as possible were the main reasons for the increasing trend showed in the aging analysis of trade and bills payables.

Current ratio and gearing ratio

The current ratio and gearing ratio of the Group for the Track Record Period was as follow:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
Current ratio	1.12	1.00	1.11	1.36
Gearing ratio	0.50	0.51	0.56	0.48

Note: Current ratio is arrived at by dividing the current assets by current liabilities. Gearing ratio is arrived at by dividing the total liabilities by total assets.

Current ratio decreased slightly from 2002 to 2003. The decrease of current ratio in 2003 was mainly due to the Group's increased current liabilities such as short-term bank loans as at 31 December 2003 for business expansion while the current assets remained more or less the same. The increase in current ratio in 2004 is mainly due to the increased trade receivables as at 31 December 2004. As the Group has adjusted its credit policy so that it grants longer credit terms to its distributors and in turn, the distributors grant longer credit terms to hospitals and clinics to encourage the use of the Group's products in response to the Notice announced by the PRC authority. In the first half of 2005, current ratio increased mainly due to the repayment of bank loans and accruals and other payables.

Gearing ratio has increased since 2002 and reached 0.56 as at 31 December 2004. Such increase was mainly due to continued growth in the Group's bank borrowings resulted from expansion of business operation and purchases of property, plant and equipment. As at 30 June 2005, the gearing ratio dropped slightly to 0.48 due to repayment of bank loans and decrease of accruals and other payables.

Non-trade related party balances

The following table set out the amount and the nature of non-trade related party balances of the Group as at 30 June 2005.

		As at 30 June 2005
	Notes	*RMB'000*
Amount due to related parties		
– Xiyao Construction	*1*	22
		22
Amount due to shareholders		
– Dividend payable		8,461
– Shareholders' loan	*2*	47,594
		56,055

Notes:

1. The amount due to Xiyao Construction was related to retention construction payable for construction project and was settled by the end of guarantee period.

2. According to the resolution of board of directors' meeting of Xi'an Lijun held in December 2004, the shareholders of Xi'an Lijun agreed to receive the dividend amounting to RMB47,594,000 declared in 2004 after December 2006, which was deemed as the shareholders' loan.

As at the Latest Predicable Date, all of the amount due to related parties and shareholders set out above had been repaid.

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term loans from time to time in case the operating cashflow is insufficient to meet the capital requirements.

Cash flows

The table below summarises the Group's cash flows for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	19,430	102,367	46,904	25,887
Net cash used in investing activities	(48,427)	(65,315)	(7,354)	(4,765)
Net cash (used in)/generated from financing activities	(20,398)	(53,310)	3,867	(54,837)
Bank and cash balances at end of year/period	111,515	95,257	138,674	104,959

The Group's working capital mainly comes from net cash generated from operating activities and bank loans. The Directors consider that the Group generally needs bank balances and cash of approximately RMB50,000,000 to approximately RMB60,000,000 as general working capital, while the remaining bank balances and cash were kept for future use. The Directors expect that the Group will rely on net cash generated from operating activities and the net proceeds from the Share Offer to meet its working capital and other capital expenditure requirements in the near future. In the long run, the Group will be funded by cash generated from operating activities and if necessary, by additional equity financing or bank borrowings.

Operating activities

	For the year ended 31 December			For the six months ended 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash inflow generated from operations	109,160	126,803	56,759	33,522
Interest paid	(1,507)	(3,933)	(7,111)	(4,744)
Income tax paid	(88,223)	(20,503)	(2,744)	(2,891)
Net cash generated from operating activities	19,430	102,367	46,904	25,887

Net cash inflow generated from operations was approximately RMB109,160,000, RMB126,803,000, RMB56,759,000 and RMB33,522,000 for each of the three years ended 31 December 2004 and the six months ended 30 June 2005.

Net cash generated from operating activities for the six months ended 30 June 2005 was approximately RMB25,887,000, while profit before income tax was approximately RMB58,493,000 for the same period. The difference of approximately RMB32,606,000 was mainly caused by the adjustment RMB17,671,000 made on the depreciation of property, plant and equipment and a decrease in prepayments, deposits and other receivables of approximately RMB20,457,000. Part of the difference was offset by an increase in trade and bills receivables of approximately RMB11,241,000, an increase in inventories of approximately RMB7,725,000 and a decrease in taxation payable, accruals and other payables of approximately RMB50,803,000.

Net cash generated from operating activities for the year ended 31 December 2004 was approximately RMB46,904,000, while net profit was approximately RMB131,392,000 for the same year. The difference of approximately RMB84,488,000 was mainly caused by the adjustment of approximately RMB36,398,000 made on the depreciation of property, plant and equipment, a decrease in inventories by approximately RMB16,058,000 and a decrease in amount due from related parties by approximately RMB3,299,000. Part of the difference was also offset by an increase in trade and bills receivables by approximately RMB99,464,000, and a decrease in taxation payable, accruals and other payables by approximately RMB27,733,000.

Net cash generated from operating activities for the year ended 31 December 2003 was approximately RMB102,367,000, while profit before taxation was approximately RMB102,790,000 for the same year. The difference of approximately RMB423,000 was mainly due to the adjustment of approximately RMB32,523,000 made on the depreciation of property, plant and equipment, the adjustment of approximately RMB5,336,000 made on impairment losses of property, plant and equipment, the adjustment of approximately RMB6,464,000 on provision for impairment of receivables and an increase in prepayments, deposits and other receivables by approximately RMB8,280,000. Part of the difference was offset by an increase in taxation payable, accruals and other payables by approximately RMB14,643,000 and income tax paid of approximately RMB20,503,000.

Net cash generated from operating activities for the year ended 31 December 2002 was approximately RMB19,430,000, while profit before taxation was approximately RMB116,517,000 for the same year. The difference of approximately RMB97,087,000 was mainly due to the adjustment of approximately RMB23,615,000 made on the depreciation of property, plant and equipment, the adjustment of approximately RMB4,380,000 on provision for impairment of receivables and a increase in amount due from related companies by approximately RMB1,638,000. Part of the difference was offset by a decrease in taxation payable, accruals and other payables by approximately RMB37,960,000, a decrease in amounts due to related parties by approximately RMB11,865,000 and income tax paid of approximately RMB88,223,000.

Investing activities

Net cash used in investing activities was approximately RMB48,427,000, RMB65,315,000, RMB7,354,000 and RMB4,765,000 for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. Investing activities were mainly related to the Group's expansion in production.

Financing activities

Net cash used in financing activities was approximately RMB54,837,000 for the six months ended 30 June 2005 for the repayment of bank loans of approximately RMB62,000,000, dividend paid to the Group's shareholders of approximately RMB20,500,000 and professional fees of approximately RMB2,337,000, and part of which is offset by new bank loans of approximately RMB30,000,000.

Net cash generated from financing activities was approximately RMB3,867,000 for the year ended 31 December 2004. Such increase was mainly attributable to new bank loans of approximately RMB157,000,000, and part of which was offset by the bank loan repayments of approximately RMB100,000,000, dividend paid to the Group's shareholders of approximately RMB50,122,000 and professional fees of approximately RMB3,012,000.

Net cash used in financing activities was approximately RMB53,310,000 for the year ended 31 December 2003 for the repayment of bank loans of approximately RMB30,000,000 and dividend paid to the Group's shareholders of approximately RMB83,310,000, and part of which is offset by new bank loans of approximately RMB60,000,000.

Net cash used in financing activities was approximately RMB20,398,000 for the year ended 31 December 2002 for the repayment of bank loans of approximately RMB4,000,000 and dividend paid to the Group's shareholders of approximately RMB46,398,000, and part of which is offset by new bank loans of approximately RMB30,000,000.

Net current assets

As at 30 June 2005, the Group's current assets were approximately RMB394,288,000, which mainly comprise trade and bills receivables, bank and cash balances, prepayments, deposits and other receivables, inventories and amounts due from related parties. The Group has current liabilities of approximately RMB289,642,000, which mainly include trade and bills payables, deposits and advance receipts from customers, short-term bank loans, accruals and other payables, and income tax payable.

The Directors confirm that there have been no material adverse change in the net current assets of the Group since 30 June 2005.

Factors that may affect liquidity

Capital commitments

The following table summarises the Group's outstanding capital commitments in respect of purchase of properties, plants and equipments and construction in progress, which were not provided for in the consolidated financial statements:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment				
– Contracted but not provided for	63,081	18,854	25,203	4,823

Operating lease commitments

The Group had leased a number of properties in the PRC and Hong Kong under operating leases as at 30 June 2005. The aggregate future minimum lease payments payable under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than one year	6,826	6,826	5,461	6,668
Later than one year but not later than five years	25,624	18,798	13,337	10,007
Total	32,450	25,624	18,798	16,675

Capital expenditures

Capital expenditure was used for construction in progress, purchases of land use rights, property, plant and equipment. For the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group's capital expenditure were approximately RMB67,648,000, RMB83,198,000, RMB56,747,000 and RMB5,516,000 respectively. The significant capital expenditures during the Track Record Period represented the Group's efforts in upgrading and expansion of production facilities.

Working capital

The Directors are of the view that, after taking into account the financial resources available to the Group, including internally generated fund, outstanding available bank balances and estimated net proceeds from the Share Offer, the Group has sufficient working capital for its present requirements for the period ending twelve months from the date of this prospectus.

INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of this indebtedness statement, the Group had an borrowing of approximately RMB93,000,000, of which approximately RMB88,000,000 was unsecured short-term bank loans, and the remaining approximately RMB5,000,000 was a secured long-term bank loan.

The table below set out the bank loans of the Group:

	As at 31 December			As at 30 June	As at 31 October
	2002	**2003**	**2004**	**2005**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Long-term loans	20,000	20,000	15,000	5,000	5,000
Short-term loans	30,000	60,000	122,000	100,000	88,000
Total	50,000	80,000	137,000	105,000	93,000

Securities and guarantees

The table below set out the secured or guaranteed loans of the Group:

	As at 31 December			As at 30 June	As at 31 October
	2002	**2003**	**2004**	**2005**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured	–	–	5,000	5,000	5,000
Guaranteed	20,000	50,000	62,000	10,000	–
Unsecured	30,000	30,000	70,000	90,000	88,000
Total	50,000	80,000	137,000	105,000	93,000

As at 31 October 2005, the secured loans of the Company's subsidiary of approximately RMB5,000,000 was secured by a land use right.

Confirmation

Save as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and bills payables, at the close of business on 31 October 2005, the Group did not have any outstanding mortgages, charges, debentures, loan capital issued and outstanding or agreed to be issued or overdrafts, or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits, or other guarantees or other material contingent liabilities.

Save as disclosed above, the Directors confirm that there has been no material change in the Group's liabilities or contingent liabilities since 31 October 2005.

Disclosure required under Rules 13.11 to 13.19 of the Listing Rules

The Directors confirm that as at the Latest Practicable Date, the Directors were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks including interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial market and seeks to minimize potential adverse effects on the Group's financial performance.

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings have been disclosed in Note 26 of Section II in Appendix I to this prospectus.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade and bills receivables, and other current assets represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. However, foreign currencies, mainly US dollars, are required to settle the Group's sales of bulk pharmaceuticals to overseas customers and the relative expenses. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's bank and cash balances as at 31 December 2002, 2003 and 2004 and 30 June 2005 are disclosed in Note 22 of Section II in Appendix I to this prospectus.

PROPERTY INTERESTS

Sallmanns (Far East) Limited, an independent valuer, has valued the Group's property interests as at 31 October 2005 and is of the opinion that the Group's property interests is valued at an aggregate amount of RMB129,100,000 as at 31 October 2005. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix III to this prospectus.

Most of the Group's manufacturing assets are situated in Xi'an and Weinan, Shaanxi Province, the PRC. The total site area of the Group's manufacturing plants is approximately 177,272 sq.m. and the total gross floor area of the Group's premises are approximately 107,073 sq.m., out of which approximately 64% of the site area with an aggregate site area of approximately 113,768 sq.m. is leased from Rejoy Group, approximately 3% of the gross floor area are under construction as at 31 October 2005. The Group also leases some buildings with an aggregate gross floor area of approximately 1,286 sq.m. from various Independent Third Parties for office or storage purposes.

The Group also holds and occupies three properties with a total gross floor area of approximately 615 sq.m. in Beijing and Tianjin, respectively, the PRC for residential and office uses.

Summary of the Group's manufacturing property interests are as follows:

Occupied by Xi'an Lijun

Held / Leased	**Location**	**Total Site Area** *(sq.m.)*	**Total Gross Floor Area** *(sq.m.)*
Held	Xi'an	6,151	98,753
Held	Beijing/Tianjin	–	615
Leased	Xi'an	117,788	1,078
Total		**123,939**	**100,446**

Held by Heng Xin Tang

Held / Leased	**Location**	**Total Site Area** *(sq.m.)*	**Total Gross Floor Area** *(sq.m.)*
Held	Weinan	53,333	8,320
Leased	Xi'an	–	208
Total		**53,333**	**8,528**

Defects in legal titles of the Group's properties in the PRC

1. Xi'an Lijun entered into a land use rights tenancy agreement and a supplemental agreement (the "Tenancy Agreement") pursuant to which Xi'an Lijun agreed to rent a parcel of land with a site area of approximately 4,020 sq.m. from Xi'an Shi Chenjiazhai Villager Committee (西安市蓮湖區陳寨村村民委員會) for a term of 20 years at an annual rental of RMB50,000 commencing from 1 January 1999 and expiring on 31 December 2019. Xi'an Lijun is constructing a 2-storey storehouse (the "Storehouse") of approximately 2,784 sq.m. on the parcel of land. Details of the properties are set out in no. 9 in the section headed "Group II – Property interest held by the Group under development in the PRC" in Appendix III to the prospectus.

   According to the legal opinion from the PRC legal advisers of the Company, the aforesaid land is classified as agricultural land instead of construction land and cannot be granted, transferred or sublet for non-agricultural purposes and hence, (1) the Tenancy Agreement is considered to be invalid under the relevant PRC laws or regulations and is subject to the risk of being terminated by the relevant PRC authority; and (2) the Storehouse erected on the parcel of land is subject to the risk of demolition as well as penalty imposed by the relevant PRC government authority to the extent of not more than RMB30 per sq.m.. As such, the Directors expect that the maximum penalty to be imposed by the relevant PRC government authority would not be more than RMB120,600.

The total construction cost of the Storehouse is estimated to be approximately RMB6,150,000 of which approximately RMB5,780,759 had been incurred up to 31 October 2005. Given the fact that the Storehouse is subject to the risk of demolition, the construction cost incurred up to 30 June 2005 has been charged to the profit and loss account as expenses for prudence sake and the Group will charge all relevant future construction costs to the profit and loss account.

The Directors are of the view that (i) the Group is able to find a new storehouse to replace the Storehouse within a short period of time in the event that the Storehouse is demolished by the government authority; (ii) all the construction cost of the Storehouse incurred up to 30 June 2005 has been charged to the profit and loss account as expenses and the Group will charge all future construction costs to the profit and loss account; (iii) the expected demolition cost for the Storehouse is insignificant; and (iv) the maximum penalty to be imposed by the relevant PRC government authority, which would be not more than RMB120,600, is not material. As such, the Directors are of the view that the Storehouse is not crucial to the Group's operation and the Group's business operation will not be materially affected in the event that the Tenancy Agreement is terminated and the Storehouse is demolished according to the request of the relevant government authority.

2. The Group has also entered into six tenancy agreements ("Six Tenancy Agreements") pursuant to which the Group agreed to rent from the landlords (i) two commercial units with a total gross floor area of approximately 160 sq.m. located at No. 226 Sanqiao Road, Sanqiao Town, Xi'an, Shaanxi Province, the PRC for a term of four years commencing from 1 January 2004 at an annual rental of RMB65,000 for commercial purposes, exclusive of water, electricity and management charges; (ii) seven office units with a total gross floor area of approximately 100 sq.m. located at No. 66 Wanshou Bei Road, Xi'an, Shaanxi Province, the PRC for a term of two years commencing from 30 April 2004 at an annual rental of RMB15,000, exclusive of water, electricity and management charges; (iii) three commercial units with a total gross floor area of approximately 98 sq.m. located at No.66 Wanshou Bei Road, Xi'an, Shaanxi Province, the PRC for a term of three years commencing from 1 May 2003 at an annual rental of RMB94,080, exclusive of water, electricity and management charges; (iv) a storage unit with a gross floor area of approximately 600 sq.m. located at Jiushi Road, Xi'an, Shaanxi Province, the PRC for a term of three years commencing from 1 September 2003 at an annual rental of RMB93,600 for storage purposes, exclusive of water, electricity and management charges; (v) six commercial units with a total gross floor area of approximately 120 sq.m. located at the middle section of Hancheng Road Lianhu District, Xi'an, Shaanxi Province, the PRC for a term of one year commencing from 1 April 2005 at an annual rental of RMB79,200 for business purposes; and (vi) an office unit with a gross floor area of approximately 208 sq.m. located at South Section Gaoxin Road, Xi'an, Shaanxi Province, the PRC for a term of one year commencing from 1 May 2005 at a monthly rental of RMB4,000 for office purpose, exclusive of water, electricity and management charges. Details of the properties are set out in nos. 11 to 15 in the section headed "Group IV – Property interests rented and occupied by the Group in the PRC" in Appendix III to this prospectus.

According to the legal opinion from the PRC legal adviser to the Company, the PRC legal adviser is unable to ascertain whether the parties designated as landlords under the Six Tenancy Agreements have the legal right to execute the Six Tenancy Agreements in question, whether such landlords have the right to let or sub-let the properties in question, or whether they can assume duties and responsibilities as landlords under the Six Tenancy Agreements. For these reasons, the PRC legal adviser to the Company cannot ascertain whether the Six Tenancy Agreements are valid and enforceable or whether the Group is protected by PRC law when using such properties. In the absence of building ownership certificates showing proper legal titles, the Six Tenancy Agreements may not be valid or enforceable.

The Directors consider that the storehouse, commercial units and office units leased under the Six Tenancy Agreements are not crucial to the Group's business as the Group can lease similar premises from other landlords within a short period of time at similar prices.

The Group has never been evicted from or closed down the storehouse, commercial units and office units of any of these properties on the basis of defects in title. In the event that there is a dispute to the legal title of any of the affected leased properties, the storehouse, commercial units and office units operating on such properties may have to be evicted or closed down and the Group may suffer losses due to prepayments and deposits paid for such affected leased properties as well as expenses for relocation.

Despite such defects in legal titles in respect of the aforementioned leased properties, the Directors are of the view that such risk, being a normal business risk, is not uncommon for companies in the PRC and the Group's operations and financial operation will not be materially and adversely affected if the Group continue to use and occupy these leased properties for the following reasons:

- the Directors consider that the risk that all affected properties might be closed down or that the Group might be evicted from all such properties on the basis of defects in title is relatively remote, as these affected properties are leased by the Group from various parties; and

- as at 30 June 2005, the Group has not paid any rental deposits to those affected leased properties.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Dividends

The dividends declared by the subsidiaries of the Group in respect of each of the three years ended 31 December 2004 and the six months ended 30 June 2005 amounted to approximately RMB52,725,000, RMB63,270,000, RMB89,774,000 and RMB4,218,000 respectively, representing approximately 69.4%, 72.1%, 82.3% and 9.0% respectively of the profit for the year/period. Payment of such dividends was financed by internal resources of the Group.

It is the present intention of the Directors that, in future, interim and final dividends will be paid in or around October and May of each financial year respectively, and that the declaration of payment and amount of future dividends are expected to be approximately 50% of the profit attributable to Shareholders for each financial year. However, the declaration of payment and amount of future dividends will be subject to the discretion of the Directors and the approval of the Shareholders and will be dependent upon the Group's earnings, financial condition, future development plans, cash requirements and availability, the relevant laws and all other relevant factors. The Directors expect that the payment of dividends will not have any material impact on the Group's gearing level, indebtedness and liquidity.

Distributable Reserves

The Company was incorporated in the Cayman Islands on 28 September 2004 and has not carried on business since its incorporation. Accordingly, the Company had no reserve available for distribution to the shareholders as at 30 June 2005.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 30 June 2005, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Net assets of the Group attributable to the equity holders of the Company as at 30 June 2005 *RMB'000*	Less: goodwill on acquisition of a subsidiary less amortisation as at 30 June 2005 *RMB'000*	Audited consolidated net tangible assets of the Group as at 30 June 2005 *RMB'000*	Audited consolidated net tangible assets of the Group as at 30 June 2005 *HK$'000*	Estimated net proceeds from the Share Offer *HK$'000* *(Note 1)*	Unaudited pro forma adjusted consolidated net tangible assets of the Group *HK$'000*	Unaudited pro forma adjusted consolidated net tangible assets per Share *HK$* *(Note 2)*
Based on the Offer Price of HK$1.98 per Share	293,501	601	292,900	281,635	115,600	397,235	1.42
Based on the Offer Price of HK$2.20 per Share	293,501	601	292,900	281,635	131,000	412,635	1.47

Notes:

1. The estimated net proceeds from the Share Offer are based on the respective Offer Price of HK$1.98 and HK$2.20 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of Over-allotment Option. If the Over-allotment Option is exercised in full, the unaudited pro forma adjusted net tangible asset value per Share will be increased correspondingly.

2. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments of goodwill and on the basis that a total of 280,000,000 Shares were in issue as at 30 June 2005 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer but without taking account for any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

3. The amount in RMB is converted to HK$ with the exchange rate at HK$1.00 to RMB1.04.

4. The buildings of the Group were revalued at 31 October 2005. The revaluation surplus, representing the excess of market value of the buildings over their book value, is approximately RMB5,901,250 and will not be included in the Group's accounts for the year ending 31 December 2005. In accordance with the Group's accounting policy, all buildings are stated at cost less accumulated depreciation and impairment losses, if any. As such, the revaluation surplus arising from the valuation of buildings has not been included in the above unaudited pro forma adjusted net tangible assets statement. Had the buildings been stated at such valuation, an additional depreciation of RMB186,873 per annum would have been incurred.

UNAUDITED PRO FORMA EARNINGS PER SHARE

The following is an illustrative statement of unaudited pro forma earnings per Share of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer and Capitalisation Issue as if it had been taken place on 1 January 2004. Because of the nature of this illustrative statement, it may not give a true picture of the earnings per Share of the Group:

	For the year ended 31 December 2004
Audited profit attributable to equity holders for the year ended 31 December 2004, as shown in the accountants' report set out in Appendix I to this prospectus	RMB88,632,000
Number of Shares in issue and issuable as at 1 January 2004 *(Note 1)*	210,000,000
Shares to be issued under the Share Offer	70,000,000
Adjusted number of Shares in issue after completion of the Share Offer	280,000,000
Unaudited pro forma earnings per Share *(Note 2)*	RMB0.3165
	HK$0.3043

Notes:

1. In determining the number of shares in issue and issuable as at 1 January 2004, the 10,000 Shares in issue as at the date of this prospectus and 209,990,000 Shares to be issued pursuant to the Capitalisation Issue as described in the paragraph headed "Changes in share capital of the Company" in Appendix V to this prospectus was deemed to have occurred on 1 January 2004.

2. The calculation of the unaudited pro forma earnings per Share is based on audited profit attributable to equity holders for the year ended 31 December 2004 and on the basis of a total of 280,000,000 Shares in issue and to be issued immediately following the completion of the Share Offer as if the Share Offer had taken place on 1 January 2004.

3. The amount in RMB is converted to HK$ with the exchange rate at HK$1.00 to RMB1.04.

NO MATERIAL CHANGE

The Directors confirm that since 30 June 2005, being the date to which the latest audited financial statements of the Group were made up, there has been no material adverse change in the financial or trading position or prospects of the Group.

FUTURE PLANS AND PROSPECTS

In light of the rising living standards and the increasing health consciousness in the PRC, the Directors believe that there is increasing potential in the pharmaceutical products and the Chinese medicines markets in the PRC in which the Group currently operates. In respect of the antibiotics market, the Directors consider that it will grow steadily in line with the growth in the pharmaceutical industry and provide a stable income to the Group.

Development of finished medicines and health care products

Notwithstanding that the competition in the pharmaceutical industry is keen, the Directors is optimistic about the Group's business prospects as people in the PRC are becoming more health-conscious. The Directors consider that the Group should continue to develop new products in order to meet the changes and demand of customers. The Group intends to set up three new production lines for production of new types of finished medicines which focus on OTC medicines and health care products. These three production lines include one for the production of spray form products, one for the production of oral solution products and the other one for the production of soft capsule form products. The Directors believe that such expansion plan would improve the Group's competitiveness in the pharmaceutical industry.

Besides, to cater for the increasing demands of Paiqi, the Group intends to increase the production capacities of lyophilized powder for injection. Upon completion of the expansion of the production line, the Directors expect the Group's annual production capacity on lyophilized powder for injection will be increased from 10,000,000 injections as at the Latest Practicable Date to 20,000,000 injections.

Development of bulk pharmaceuticals

In order to further enhance the Group's competitive strengths by reducing its costs of raw materials, the Directors intend to set up a new production line for production of several kinds of bulk pharmaceuticals which are the key raw materials of the Group's antibiotics. The Directors expect that such vertical expansion would be beneficial to the Group as the Group's production costs will be reduced and its profitability should be improved.

As mentioned above, the Group will establish a new production line which will be able to produce several kinds of bulk pharmaceuticals. In addition to applying such production line to produce bulk pharmaceuticals for the Group's internal use, the Group also intends to use such production line to produce new types of bulk pharmaceuticals for sale in order to diversify its product range of bulk pharmaceuticals for exports.

Development of Chinese medicines

Leveraging on the Group's experience in the pharmaceutical industry and taking into account the business prospects of Chinese medicines, the Group has diversified its business into manufacture and sale of Chinese medicines. Since July 2003, Xi'an Lijun became a 51% shareholder of Heng Xin Tang and it is intended that Heng Xin Tang will become the Group's platform for the development of Chinese medicine business in the PRC. In light of the foregoing, the Group intends to continue to devote resources to improve existing products and production technology of Chinese medicines, to improve and expand its existing production facilities of Chinese medicines, to develop new forms of Chinese medicines, and promote the brand name of the Group's Chinese medicines.

Enhancement and development of the Group's sales networks in the PRC

As at the Latest Practicable Date, the Group had 26 sales offices and 404 distributors in the PRC which cover major cities in approximately 25 provinces or autonomous regions and four centrally administrative municipalities. To further explore the PRC pharmaceutical markets and increase the market share of the Group, the Group intends to enhance and further develop its distribution network by (1) strengthening the business relationship with its existing distributors and ultimate customers; (2) employing additional sales and marketing staff and appointing additional distributors to further penetrate its products into smaller cities in the PRC; and (3) acquiring drug stores.

In respect of the Group's plans to appoint additional distributors to further penetrate its products into smaller cities in the PRC, the Group targets to expand its distribution network from its existing 404 distributors to 800 distributors who in turn have their own sub-distributors. The Directors hope to expand the current network to the scale of 2,000 distributors and sub-distributors in total.

The Directors consider that the living standards and health consciousness in the PRC are increasing and accordingly, the demand for formal, sizable or registered drug stores will also increase. As such, the Group is optimistic about the business prospects of drug stores in the PRC. As at the Latest Practicable Date, the Group did not own or operate any drug stores. Given the fact that the existing distribution network of the Group covers approximately 25 provinces or autonomous regions and four centrally administrative municipalities in the PRC, the Group intends to acquire a total of approximately 30 drug stores in next few years to cover the aforesaid provinces and centrally administrative municipalities as part of its vertical expansion plan. At present, the Group plans to acquire approximately four, six, ten and ten drug stores in 2006, 2007, 2008 and 2009 respectively. The Group currently intends to acquire drug stores one-by-one instead of acquiring several drug stores at the same time so as to reduce the business risk of the Group. However, the Directors consider that the actual pace of acquisition may vary from the proposed plan subject to the business environment at the time of acquisition and the performance of the acquired drug stores. As at the Latest Practicable Date, the Group had not identified any target drug stores. The Directors expect that the distribution network of the Group in the PRC would be enhanced by acquisition of drug stores.

The Directors' plan is that the drug stores to be acquired in future will mainly focus on selling the Group's OTC medicines and health care products whereas the distributors of the Group will be mainly responsible for the distribution of the Group's prescription medicines. Accordingly, the Directors consider that there will not be any material internal competition between the drug stores to be acquired in the future and the Group's distributors.

In addition, to improve its management of sales orders and sales performance and to better monitor its customers' information, the Group plans to set up centralised information and management systems, including hardware and software, for the sales network.

Enhancement of research and development capability

The Directors consider that research and development capability is one of the key factors to succeed in the pharmaceutical industry and is important for maintaining market competitiveness. Accordingly, the Group will place great emphasis in strengthening its research and development capability to improve existing and develop new pharmaceutical technology. The Group will enhance the co-operation with universities and research institutes in the PRC to develop new products or technology which will be applied by the Group in product development.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

With the additional capital raised from the Share Offer and elevated corporate profile after the Listing, the Directors believe that the Group will be in a better position to enhance its competitiveness and to implement the Group's plans as set out above.

Assuming that the Over-allotment Option is not exercised, the net proceeds of the Share Offer, after deducting the related expenses to be borne by the Company, are estimated to be approximately HK$123.3 million (based on an Offer Price of HK$2.09, being the mid-point of the stated range of the Offer Price of between HK$1.98 and HK$2.20). The Directors presently intend to apply such net proceeds as follows:

– approximately HK$85.6 million to set up three new production lines for production of new types of finished medicines and health care products and expand the production capacity of lyophilized powder for injection comprising;

    – as to approximately HK$3.8 million for set up of the new production line of spray form products;

    – as to approximately HK$43.3 million for set up of the new production line of oral solution products;

    – as to approximately HK$21.2 million for set up of the new production line of soft capsule form products; and

    – as to approximately HK$17.3 million for expansion of production capacities of lyophilized powder for injection.

– approximately HK$19.2 million to finance the improvement of existing products and production technology of Chinese medicines, the improvement and expansion of the Group's existing production facilities of Chinese medicines, the development of new forms of Chinese medicines, and the promotion of the brand name of the Group's Chinese medicines;

– approximately HK$9.2 million to finance the enhancement and expansion of the Group's distribution network and approximately HK$5.8 million for the set up of centralised information and management systems for its sales networks; and

– the balance of approximately HK$3.5 million as additional working capital of the Group.

If the Offer Price is fixed at the maximum of HK$2.20, the Company will receive additional net proceeds of approximately HK$7.7 million. The Directors intend to apply the additional net proceeds to be raised therefrom as additional working capital of the Group. In the event that the Offer Price is fixed at the minimum of HK$1.98, the net proceeds will be reduced by approximately HK$7.7 million. In such circumstances, the Directors intend to reduce the application of the net proceeds as additional working capital of the Group and the enhancement and expansion of the Group's distribution network.

In the event the Over-allotment Option is exercised in full, the Group will receive additional net proceeds of approximately HK$21.4 million based on an Offer Price of HK$2.09 being the mid-point of the stated range of the Offer Price of between HK$1.98 and HK$2.20. The Directors intend to apply all of the additional net proceeds to finance the enhancement of the Group's research and development capability to improve existing and develop new pharmaceutical technology.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short term interest-bearing deposits with licensed banks in Hong Kong or the PRC.

Other than the future plans disclosed in this paragraph, which will be financed mainly by the net proceeds from the Share Offer, the Directors plan to finance other future plans disclosed in the paragraph headed "Future plans and prospects" under this section, including (but not limited to) the establishment of a new production line for bulk pharmaceuticals and the acquisition of drug stores, mainly by the Group's internally generated fund.

UNDERWRITERS

PUBLIC OFFER UNDERWRITERS

Guotai Junan Securities (Hong Kong) Limited
China Merchants Securities (HK) Company Limited
Core Pacific – Yamaichi International (H.K.) Limited
South China Securities Limited
Tokai Tokyo Securities (Asia) Limited
Worldwide Finance (Securities) Limited

PLACING UNDERWRITERS

Guotai Junan Securities (Hong Kong) Limited
China Merchants Securities (HK) Company Limited
Core Pacific – Yamaichi International (H.K.) Limited
South China Securities Limited
Tokai Tokyo Securities (Asia) Limited
Worldwide Finance (Securities) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Placing and Underwriting Agreement

Pursuant to the Placing and Underwriting Agreement entered into on 1 December 2005 between, among others, the Company, the Sponsor and the Underwriters, the Company is offering (i) the Public Offer Shares for subscription by way of Public Offer on and subject to the terms and conditions set out in this prospectus and the application forms relating thereto, and (ii) the Placing Shares for subscription by way of Placing and subject to the terms and conditions set out in this prospectus and the documents relating to the Placing, in each case, at the Offer Price.

Subject to, inter alia, the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus before 8:00 a.m. on the Listing Date, (i) the Placing Underwriters have severally agreed to subscribe for or purchase or procure placees to subscribe for or purchase, subject to the terms and conditions of the Placing, their respective applicable portions of the Placing Shares which are not taken up under the Placing; and (ii) the Public Offer Underwriters have severally agreed to subscribe for or procure subscribers for, on the terms and conditions set out in this prospectus and the application forms relating thereto, their respective portions of the Public Offer Shares which are not taken up under the Public Offer.

Grounds for termination

The obligations of the Underwriters to subscribe for or purchase or procure subscribers or purchasers for the Offer Shares are subject to termination by the Lead Manager (acting on behalf of the Underwriters) by notice in writing to the Company prior to 8:00 a.m. on the Listing Date ("Termination Time") if prior to the Termination Time, there comes to the notice of the Lead Manager or any of the Underwriters:

(a) any matter or event showing any of the representations, warranties or undertakings contained in the Placing and Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a material breach of any of the warranties or any other provisions of the Placing and Underwriting Agreement which, in any such cases, is considered, in the reasonable opinion of the Lead Manager; or

(b) any statement contained in this Prospectus and/or the application forms relating to the Public Offer has become or been discovered to be untrue, incorrect or misleading in any material respect; or

(c) any event, series of events, matter or circumstances occurs or arises on or after the date of the Placing and Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Placing and Underwriting Agreement, would have rendered any of the warranties in the Placing and Underwriting Agreement untrue, incorrect or misleading in any material respect and which is considered, in the reasonable opinion of the Lead Manager (on behalf of the Underwriters), to be material in the context of the Share Offer; or

(d) any matter which, had it arisen or been discovered immediately before the date of this Prospectus and not having been disclosed in this Prospectus, would have constituted, in the reasonable opinion of the Lead Manager (on behalf of the Underwriters), a material omission in the context of the Share Offer; or

(e) any event, act or omission which gives or is likely to give rise to any liability of the Company and any of the Controlling Shareholders (as defined in the Prospectus) of the Company arising out of the breach of any representations, warranties or undertakings contained in Agreement; or

(f) any breach by any party to the Placing and Underwriting Agreement other than the Underwriters of any provision of the Placing and Underwriting Agreement which, in the reasonable opinion of the Lead Manager (on behalf of the Underwriters), is material.

The Lead Manager (on behalf of the Underwriters) shall in addition have the right (but not the obligation) by giving notice in writing to the Company to terminate the Placing and Underwriting Agreement at any time if prior to the Termination Time there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of this Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(a) any new law or regulation in Hong Kong, the Cayman Islands, the British Virgin Islands or the PRC; or

(b) any change in, or any event or series of events or development resulting in any change in the local, national, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects in Hong Kong, the Cayman Islands, the British Virgin Islands, or the PRC; or

(c) any material adverse change in the conditions of Hong Kong, the US, the United Kingdom, Singapore, the PRC or international equity securities or other financial markets; or

(d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances; or

(e) any change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the British Virgin Islands or the PRC; or

(f) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by ASEAN countries, the US or by the European Union (or any member thereof) on Hong Kong or the PRC; or

(g) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or

(h) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which materially and adversely affect the business or the financial or trading position or prospects of the Group taken as a whole,

which, in the reasonable opinion of the Lead Manager (on behalf of the Underwriters):

(1) is or shall be or is likely to be adverse in any material respect, to the business, financial or other trading condition or prospects of the Company and its subsidiaries taken as a whole; or

(2) has or shall have or is likely to have a material adverse effect on the success of the Share Offer as a whole or the level of the Offer Shares being applied for or accepted; or

(3) makes it impracticable, inadvisable or inexpedient to proceed with the Share Offer as a whole.

Undertakings

Each of the Controlling Shareholders has jointly and severally undertaken with the Company, the Sponsor and the Underwriters that:

(1) save for the Offer Shares under the Share Offer and the stock borrowing arrangement pursuant to the Stock Borrowing Agreement, it shall not and shall procure that none of its or his associates (as defined in the Listing Rules) or companies controlled by it or nominees or trustees holding in trust for it shall sell, transfer or otherwise dispose of (including, without limitation, the creation of any option over but save pursuant to a pledge or charge as security for a bona fide commercial loan provided that such pledge or charge is in compliance with the Listing Rules) any of the Shares or securities of the Company beneficially owned by it or the relevant company, nominee or trustee (including any interest in any company controlled by it which is directly or indirectly the beneficial owner of any of such Shares) immediately following completion of the Share Offer and the Capitalisation Issue (the "Relevant Securities") within the period of six months from the Listing Date (the "First Six-Month Period");

(2) it shall not and shall procure that none of its or his associates or companies controlled by it or nominees or trustees holding in trust for it shall within the period of a further six months immediately after the expiry of the First Six-Month Period (the "Second Six-Month Period") sell, transfer or otherwise dispose of (including without limitation the creation of any option over but save pursuant to a pledge or charge as security for a bona fide commercial loan) any of the Relevant Securities if immediately following such sale, transfer or disposal, the Controlling Shareholders taken together would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, provided always that, in the event of any such sale, transfer or disposal, all reasonable steps shall be taken to ensure that any such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares after completion of such sale, transfer or disposal; and

(3) that it shall, and shall procure that its associates or companies controlled by it or nominees or trustees holding in trust for it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or him or its or his associates or companies controlled by it or him or nominees or trustees holding in trust for it or him.

Each of the Controlling Shareholders has undertaken to the Company, the Lead Manager (on behalf of the Underwriters) and the Sponsor that, during the First Six-Month Period and the Second Six-Month Period, it shall:

(i) when it pledges or charges any securities or interests in the securities of the Company beneficially owned by it, whether directly or indirectly, immediately inform the Company in writing of such pledges or charges together with the number of securities so pledged or charged; and

(ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company shall be sold, transferred or disposed of, immediately inform the Company of such indications.

The Company has undertaken with the Lead Manager (on behalf of the underwriters) and the Sponsor that it will inform the Stock Exchange as soon as it has been informed of any of the matters relating to the pledge or charge of the Relevant Securities mentioned above by the Controlling Shareholders and disclose such matters by way of a press announcement which is to be published in newspapers as soon as possible in accordance with the requirement of the Listing Rules.

Each of the Controlling Shareholders has undertaken with the Stock Exchange to comply with Note 3 to Rule 10.07 of the Listing Rules.

The Company has undertaken with the Lead Manager (on behalf of the Underwriters) and the Sponsor and each of the Controlling Shareholders jointly and severally undertakes with the Lead Manager (on behalf of the Underwriters) and the Sponsor to procure that, without the prior written consent of the Lead Manager (on behalf of the Underwriters) and the Sponsor (such consent not to be unreasonably withheld) and unless in compliance with the requirements of the Listing Rules and subject always to the requirements of the Stock Exchange, save for the Shares to be issued pursuant to the Capitalisation Issue and the Share Offer, the grant of any options under the Share Option Scheme, and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or otherwise than by way of scrip dividend schemes or similar arrangements in accordance with the Articles, neither the Company nor any of its subsidiaries from time to time shall allot or issue or agree to allot or issue any shares in the Company or any subsidiary of the Company from time to time or grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise acquire any securities of the Company or any subsidiary of the Company during the First Six-Month period.

Commission, fee and expenses

The Underwriters will receive a commission of 2.5% on the aggregate Offer Price of all the Offer Shares (including Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. The Sponsor will receive a financial advisory and documentation fee. Such commission and fees, together with Stock Exchange listing fee and trading fee, SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer are estimated to amount to approximately HK$23 million in aggregate (based on an Offer Price of HK$2.09 per Share, being the mid-point of the stated range of the Offer Price of between HK$1.98 and HK$2.20 per Share and the assumption that the Over-allotment Option is not exercised), will be fully payable by the Company.

Underwriters' interest in the Company

Save as disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares in any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$2.20 per Share and is expected to be not less than HK$1.98 per Share. Based on the maximum Offer Price of HK$2.20 per Share, plus 1% brokerage fee, 0.005% SFC transaction levy and 0.005% Stock Exchange trading fee, one board lot of 2,000 Shares will amount to a total of HK$4,444.44.

The Offer Price is expected to be fixed by the Company and the Lead Manager (on behalf of the Underwriters) on or around 7 December 2005, or such later time as may be agreed by the Company and the Lead Manager (on behalf of the Underwriters) but in any event no later than 5:00 p.m. on 9 December 2005.

If, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, the Lead Manager (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interest is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the latest day for lodging applications under the Public Offer. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Offer Price is not agreed between the Company and the Lead Manager (on behalf of the Underwriters) on or before 5:00 p.m. on 9 December 2005, the Share Offer will not proceed and will lapse.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon:

1. Listing

The Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the related application forms.

2. Placing and Underwriting Agreement

The obligations of the Underwriters under the Placing and Underwriting Agreement becoming unconditional, and not being terminated in accordance with the terms of that agreement or otherwise, prior to 8:00 a.m. on the Listing Date. Details of the Placing and Underwriting Agreement, its conditions and grounds for termination, are set out in the section headed "Underwriting" in this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be caused to be published by the Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application money will be returned, without interest. The terms on which the application money will be returned are set out in the section headed "Refund of your money" in the application forms.

In the meantime, all application money will be held in one or more separate bank accounts with the receiving bankers or other banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 70,000,000 Offer Shares will be made available under the Share Offer, of which 63,000,000 new Shares, representing 90% of the Offer Shares, will conditionally be placed with professional, institutional and individual investors under the Placing, assuming the Over-allotment Option is not exercised. The remaining 7,000,000 new Shares, representing 10% of the Offer Shares, will be offered to the public in Hong Kong under the Public Offer, assuming the Over-allotment Option is not exercised. Both the Placing and the Public Offer are subject to re-allocation on the basis described under "Offer mechanism – basis of allocation of the Offer Shares" below.

The Share Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Placing Underwriters and the Public Offer Underwriters have severally agreed to underwrite the Placing Shares and the Public Offer Shares, respectively, under the terms of the Placing and Underwriting Agreement. Further details of the underwriting arrangements are set out under the section headed "Underwriting" in this prospectus. The level of applications for the Public Offer Shares and the level of indications of interest for the Placing Shares will be announced in South China Morning Post (in English) and Hong Kong Economic Times in Chinese.

Investors may apply for the Public Offer Shares under the Public Offer or indicate an interest for the Placing Shares under the Placing, but may not do both. Investors may only receive an allocation of Shares under the Placing or the Public Offer but not under both. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Placing Shares, and to identify and reject indication of interest in the Placing from investors who have received Public Offer Shares.

OFFER MECHANISM – BASIS OF ALLOCATION OF THE OFFER SHARES

The Share Offer comprises the Placing and the Public Offer.

Placing

The Placing comprises initially 63,000,000 new Shares offered by the Company for subscription. The number of Placing Shares initially available for subscription or, as the case may be, purchase by way of Placing represents 90% of the total number of Offer Shares being offered under the

Share Offer assuming that the Over-allotment Option is not exercised. If the Public Offer is not fully subscribed the unsubscribed Public Offer Shares may be reallocated to the Placing as described in "Adjustments of Offer Shares between the Placing and the Public Offer" below. The Placing is fully underwritten by the Placing Underwriters. Investors subscribing for the Placing Shares are required to pay the Offer Price plus a 1% brokerage, a 0.005% transaction levy imposed by the SFC and a 0.005% Stock Exchange trading fee.

It is expected that the Placing Underwriters, or selling agents nominated by them, on behalf of the Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional and individual investors. Such professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who seek Placing Shares in the Placing may also be allocated the Placing Shares.

Allocation of the Placing Shares pursuant to the Placing will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares, and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid institutional and professional shareholder base to the benefit of the Company and its shareholders as a whole. Investors who have been allocated the Placing Shares will be required to undertake not to apply for the Public Offer Shares under the Public Offer. Investors who have not been allocated Placing Shares under the Placing may be allocated Public Offer subject to their applications being successful.

If the Offer Shares under the Placing are not fully taken up, the Sponsor will have the absolute discretion to reallocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer in such number as they deem appropriate.

The Placing is subject to the conditions stated in "Conditions of the Share Offer" above.

Public Offer

The Company is initially offering 7,000,000 new Shares (subject to re-allocation) for subscription by way of a public offer in Hong Kong , representing 10% of the total number of Offer Shares being offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters. Applicants for the Public Offer Shares are required to pay on application the Offer Price plus a 1% brokerage, a 0.005% transaction levy imposed by the SFC and a 0.005% Stock Exchange trading fee.

Up to 700,000 Shares, representing 10% of the Public Offer Shares initially available under the Public Offer, will be available for application by full-time employees of the Group under the **PINK** application forms as described under "Preference to employees" below. There will be no less than 6,300,000 Public Offer Shares, representing 90% of the Public Offer Shares initially available under the Public Offer, initially available for subscription by the public.

For allocation purposes only, the Public Offer Shares (after taking into account of any reallocation of Offer Shares between the Placing and the Public Offer referred to below) available for subscription under the Public Offer (other than 700,000 Public Offer Shares made available for application by full-time employees of the Group under **PINK** application forms) will be divided equally into two pools: pool A and pool B. Subject to the employees' full subscription of 700,000 Public Offer Shares under **PINK** application forms, each of pool A and pool B will consist of not less than 3,150,000 Public Offer Shares. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares in the value (excluding the brokerage, transaction levy imposed by the SFC and the Stock Exchange trading fee payable thereon) of HK$5 million or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares in the value (excluding the brokerage, the transaction levy imposed by the SFC and the Stock Exchange trading fee payable thereon) of more than HK$5 million and up to the total initial value of pool B. Applicants should be aware that applications in the same pool, as well as applications in different pools, are likely to receive different allocation ratios. Subject to this, the allocation of the Public Offer Shares will be made strictly on a pro rata basis. If one (but not both) of the pools is under-subscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B, but not from both pools. Multiple applications or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants applying for more than the total number of Shares originally allocated to each pool (being 3,150,000 Shares).

Preferential allotment to eligible employees of the Group will be ignored for the purpose of establishing the appropriate level of reallocation of Shares from the Placing to the Public Offer (if any). Accordingly, in calculating the level of valid applications under the Public Offer for this purpose, the number of Shares which will be treated as having been validly applied for under the Public Offer will be reduced by the number of Shares validly applied for under the **PINK** application forms.

The Company, the Directors, the Sponsor and the Underwriters will take reasonable steps to identify and reject applications under the Public Offer from investors who have been allotted Placing Shares under the Placing, and to identify and reject applications for the Placing Shares from investors who have been allotted Public Offer Shares under the Public Offer.

The Public Offer is open to all members of the public in Hong Kong. Each applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) whose benefit he is making the application have not indicated and will not indicate an interest in or otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation give by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected.

The Public Offer is subject to the conditions stated under "Conditions of the Share Offer" above. The attention of applicants, including nominees who wish to submit separate applications on behalf of different beneficial owners, is drawn to the information regarding multiple applications contained in the section headed "How to apply for the Public Offer Shares" of this prospectus. No applications will be accepted from investors applying for more than the total number of Public Offer Shares originally allocated to each pool.

ADJUSTMENTS OF OFFER SHARES BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to adjustment on the following basis:

(a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, the Shares will be reallocated to the Public Offer from the Placing so that the total number of Shares available for subscription under the Public Offer will be increased to 21,000,000 Shares, representing 30% of the Offer Shares;

(b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, the Shares will be reallocated to the Public Offer from the Placing so that the total number of Shares available for subscription under the Public Offer will be increased to 28,000,000 Shares, representing 40% of the Offer Shares; and

(c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, the Shares will be reallocated to the Public Offer from the Placing so that the total number of Shares available for subscription under the Public Offer will be increased to 35,000,000 Shares, representing 50% of the Offer Shares.

In each such case, the additional Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

If either the Public Offer or the Placing is not fully subscribed, the Sponsor have the authority to reallocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing (or vice versa, as appropriate) in such amounts and manner as they deem appropriate.

PREFERENCE TO EMPLOYEES

Up to 700,000 Shares, being 10% of the Public Offer Shares initially being offered under the Public Offer, are available for subscription by full-time employees of the Group (excluding Directors, chief executive of the Company, existing beneficial owner(s) of Shares and their respective associates) in Hong Kong on a preferential basis. Any application made by any eligible full-time employee of the Group for more than the total number of the Public Offer Shares being offered by eligible full-time employees of the Group for preferential allocation will be rejected.

OVER-SUBSCRIPTION

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allotted more Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

OVER-ALLOTMENT OPTION

Pursuant to the Placing and Underwriting Agreement, the Company has granted the Over-allotment Option to the Placing Underwriters, exercisable by the Lead Manager (acting for itself and on behalf of the other Placing Underwriters) at any time prior to the date falling 30 days after the last day for lodging applications under the Public Offer, to require the Company to allot and issue up to an aggregate of 10,500,000 additional new Shares, equivalent to 15% of the number of Offer Shares initially being offered under the Share Offer, at the Offer Price. The Over-allotment Shares issued under the Over-allotment Option (if exercised) will be issued on the same terms and conditions as the Placing Shares initially available under the Placing.

If the Over-allotment Option is exercised in full, the Offer Shares being offered under the Share Offer will represent approximately 27.7% of the Company's enlarged issued share capital immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option. The Over-allotment Option has been granted to the Lead Manager to cover any over-allocations in the Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement. The Lead Manager may exercise the Over-allotment Option, whether in part or in full. If the Over-allotment Option is exercised, a press announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may purchase the newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, such secondary market purchases actively aimed at reducing the market price are prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

The Lead Manager has been appointed by the Company as the stabilising manager for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Share Offer, the Lead Manager, as stabilising manager, or any person acting for it, may over-allot or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Stabilising activities may include, among other things, the exercise of the Over-allotment Option, in whole or in part, or purchases of the Shares in the secondary market or selling the Shares to liquidate a position held as a result of the purchase. Any such market purchase will be effected in compliance with all applicable laws, rules and regulatory requirements in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the SFO. However there is no obligation on the Lead Manager or any person acting for it to conduct any such stabilising activity which, if commenced, will be done at the absolute discretion of the Lead Manager and may be discontinued at any time and is required to be brought to an end after a limited period. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be issued under the Over-allotment Option, namely 10,500,000 Shares, which is 15% of the number of the Shares initially available under the Share Offer.

The possible stabilising action which may be taken by the Lead Manager in connection with the Share Offer may involve (among other things) (a) over-allocation of Shares; (b) exercising Over-allotment Option in whole or in part; (c) purchases of Shares; (d) establishing, hedging and liquidating positions in Shares; and/or (e) offering or attempting to do anything mentioned in (b), (c) or (d).

Prospective applicants for and investors in the Offer Shares should note that:–

(a) the Lead Manager may, in connection with the stabilising action, maintain a long position in the Shares;

(b) there is no certainty regarding the size of the long position and the period for which the Lead Manager will maintain such position, which is at the absolute discretions of the Lead Manager;

(c) in the event that the Lead Manager liquidates the long position by making sales in the open market, this may lead to a decline in the market price of the Shares;

(d) stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last date for lodging applications under the Public Offer, currently expected to be 6 January 2006, and after this date, when no further stabilising action may be taken, demand for the Shares and therefore its price, could fall;

(e) any stabilising action taken by the Lead Manager may not necessarily result in the market price of the Shares staying at or above the Offer Price whether during or after the stabilising period; and

(f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that purchase of Shares by the Lead Manager may be made at prices at or below the Offer Price.

An announcement will be made to the public within seven days after the end of the stabilisation period as required under the Securities and Futures (Price Stabilising) Rules made under the SFO.

STOCK BORROWING AGREEMENT

In order to facilitate settlement of the over-allocations under the Placing, if any, Prime United Industries Limited has entered into the Stock Borrowing Agreement with the Lead Manager pursuant to which it shall, if so requested by the Lead Manager (acting in the capacity as the lead manager of the Placing), making available to the Lead Manager up to 10,500,000 Shares held by it to facilitate settlement of over-allocations in the Placing. **The Sponsor has applied on behalf of Prime United Industries Limited and the Company to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 10.07(1)(a) of the Listing**

Rules which restricts the disposal of shares by controlling shareholders following a new listing, in order to allow Prime United Industries Limited to enter into and perform its obligations under the Stock Borrowing Agreement. The waiver application is subject to the conditions that:–

– such stock borrowing arrangement with Prime United Industries Limited under the Stock Borrowing Agreement will only be effected by the Lead Manager for settlement of over-allocations in the Placing;

– the maximum number of Shares borrowed from Prime United Industries Limited under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

– the same number of Shares so borrowed must be returned to Prime United Industries Limited no later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;

– no payments or other benefits will be made to Prime United Industries Limited by the Lead Manager or any of the Placing Underwriters in consideration for such stock borrowing arrangement; and

– such stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements.

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** application form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant.

Use a **PINK** application form if you are a full-time employee of the Group and would like your application to be given preferential consideration. Up to 700,000 Shares (being 10% of the Public Offer Shares initially available or subscription under the Public Offer) are available to full-time employees of the Group on this basis.

Note: The Public Offer Shares are not available to the Directors or chief executive of the Company or existing beneficial owners of Shares or associates of any of them.

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** application form and a prospectus from:

Any participant of the Stock Exchange

or

VXL Financial Services Limited
Unit 3214, 32nd Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

China Merchants Securities (HK) Company Limited
48th Floor, One Exchange Square
Central, Hong Kong

or

Core Pacific – Yamaichi International (H.K.) Limited
36th Floor, Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

or

South China Securities Limited
28th Floor, Bank of China Tower, 1 Garden Road
Central, Hong Kong

or

Tokai Tokyo Securities (Asia) Limited
1704, One Exchange Square, 8 Connaught Place
Central, Hong Kong

or

Worldwide Finance (Securities) Limited
16th Floor, Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

Branches		Address
Hong Kong Island		
1.	Central Branch	Shop No 16, G/F & LG/F, New World Tower, 16-18 Queen's Road, Central
2.	DVR Branch	Standard Chartered Bank Building, 4-4A Des Voeux Road, Central
3.	88 DVR Branch	88 Des Voeux Road Central
4.	Leighton Centre Branch	Shop 12-16, UG/F Leighton Centre, 77 Leighton Road, Causeway Bay
5.	Hennessy Road Branch	399 Hennessy Road, Wanchai
6.	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon		
7.	Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
8.	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
9.	Tsimshatsui Branch	10 Granville Road, Tsimshatsui
10.	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
New Territories		
11.	Tsuen Wan Branch	Shop C G/F & 1/F, Jade Plaza, no. 298 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** application form and a prospectus during normal business hours from 9:00 a.m. on 2 December 2005 until 12:00 noon on 7 December 2005 from:

(a) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(b) Customer Service Centre of HKSCC at Upper Ground, V-Heun Building, 128-140 Queen's Road Central, Hong Kong; or

(c) your stockbroker who may have application forms available.

You can collect a **PINK** application form from the Company's secretary at:–

Office 1606, 16th Floor
Office Tower
Convention Plaza
1 Harbour Road
Hong Kong

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each application form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Company and the Sponsor as its agent may accept the application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

HOW MANY APPLICATIONS MAY YOU MAKE

There are only two situations where you may make more than one application for Public Offer Shares:

1. If you are a **nominee**, you may lodge more than one application in your own name on behalf of different owners. In the box on the application form(s) marked "For nominees" you must include:

    - an account number; or

    - some other identification code

    for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

2. If you are a **full-time employee** of the Group and apply on a **PINK** application form, you may also apply on a **WHITE** or **YELLOW** application form.

Otherwise, multiple applications are not allowed.

All of your applications may be rejected as multiple applications if you, or you and joint applicants together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** application form; or
- make more than one application on a **PINK** application form; or
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** application form for more than 100% of the Public Offer Shares being offered to the public initially available in either pool A or pool B as described in the paragraph headed "Public Offer" under the section headed "Structure of the Share Offer" in this prospectus; or
- apply on one **PINK** application form for more than 100% of the Public Offer Shares being offered to full-time employees of the Group on a preferential basis; or
- apply for, take up, indicate an interest in any Placing Shares or otherwise participate in the Placing; or
- make one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** application form, **AND** make any application for Placing Shares.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**. If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company

then that application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Shares is HK$2.20 each. You must also pay a brokerage of 1%, a transaction levy of 0.005% imposed by the SFC and a Stock Exchange trading fee of 0.005%. This means that for every 2,000 Public Offer Shares you will pay HK$4,444.44. The application forms have tables showing the exact amount payable for certain multiples of Public Offer Shares.

You must pay the Offer Price, brokerage, the transaction levy imposed by the SFC and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the application forms.

If your application is successful, brokerage is paid to participants of the Stock Exchange, the transaction levy is paid to the SFC and the trading fee is paid to the Stock Exchange.

FULL-TIME EMPLOYEES OF THE GROUP – TIME FOR APPLYING FOR PUBLIC OFFER SHARES

Completed **PINK** application forms, with payment attached, must be returned to the Company at Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Hong Kong by **4:00 p.m. on 6 December 2005**.

MEMBERS OF THE PUBLIC – TIME FOR APPLYING FOR PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** application forms, with payment attached, must be lodged **by 12:00 noon on 7 December 2005**, or, if the application lists of the Public Offer are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed application form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the Standard Chartered Bank (Hong Kong) Limited listed under "Where to collect the application forms" in this section at the following times:

Friday, 2 December 2005	–	9:00 a.m. to 4:00 p.m.
Saturday, 3 December 2005	–	9:00 a.m. to 12:00 noon
Monday, 5 December 2005	–	9:00 a.m. to 4:00 p.m.
Tuesday, 6 December 2005	–	9:00 a.m. to 4:00 p.m.
Wednesday, 7 December 2005	–	9:00 a.m. to 12:00 noon

The application lists of the Public Offer will be open **from 11:45 a.m. to 12:00 noon on 7 December 2005**.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists of the Public Offer will not open if there is:

- a tropical cyclone warning signal number 8 or above, or

- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 7 December 2005. Instead they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated Public Offer Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following two situations in which Public Offer Shares will not be allocated to you:

- Revocation of your application:

  By completing an application form you agree that you cannot revoke your application before the fifth day after the time of the opening of the application lists of the Public Offer (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which exclude or limits the responsibility of that person for this prospectus. This agreement will take effect as collateral contract with the Company, and will become binding when you lodge your application form. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 2 December 2005 except as mentioned in this prospectus.

  If your application has been accepted, it cannot be revoked.

- **If the allocation of Public Offer Shares is void:**

  Your allotment or transfer of Shares will be void if the Listing Committee does not grant permission to list the Shares either:

  - within 3 weeks from the closing of the application lists of the Public Offer; or

  - within a longer period of up to 6 weeks if the Listing Committee notifies the Company of that longer period within 3 weeks of the closing of the application lists of the Public Offer.

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

The Company will not issue temporary documents or evidence of title. No receipt will be issued for application money received.

Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application form (except as otherwise provided below for **PINK** application forms):

(a) (i) share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** application forms whose share certificates will be deposited into CCASS as described below); and/or

(b) refund cheque(s) crossed "Account Payee Only "in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application; and/or the conditions of Share Offer are not fulfilled in accordance with the section headed "Structure of the Share Offer – Conditions", in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque(s), if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque(s).

Subject as mentioned below, refund cheque(s) for surplus application monies (if any) in respect of wholly successful (if applicable), wholly and partially unsuccessful applications and share certificates for successful applicants under **WHITE** or **PINK** application forms are expected to be posted (or delivered to the Company on behalf of applicants under **PINK** application forms) on or before 16 December 2005. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

WHITE application forms:

If you have applied for 500,000 Shares or above and have indicated on your application form that you will collect your share certificate(s) and/or refund cheque (if any), you may collect them in person from:

the Kwun Tong office of Computershare Hong Kong Investor Services Limited at
3/F., Futura Plaza,
111-113 How Ming Street,
Kwun Tong, Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of share certificates and/or refund cheques. This is expected to be 16 December 2005.

You must show identification to collect your share certificate(s) and refund cheque (if any). Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf.

Applicants being corporations which opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the company's chop.

If you do not collect your share certificate(s) and/or refund cheque (if any), they will be sent to the address on your application form shortly after the expiry of the time specified for collection on 16 December 2005, by ordinary post and at your own risk.

If you have applied for 500,000 Shares or more and you have not indicated on your application form that you will collect your share certificate(s) and/or refund cheque (if any) in person, or if you have applied for less than 500,000 Shares, your certificate(s) and/or refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

Part of your Hong Kong Identity Card number/passport number, or if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

YELLOW application forms:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your CCASS investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on 16 December 2005, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than a CCASS investor participant):

- for the Public Offer Shares credited to the stock account of your designated CCASS participant (other than a CCASS investor participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Company will publish the results of CCASS investor participants' applications together with the results of the Public Offer in the newspapers on 12 December 2005. You should check against the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 16 December 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect form time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

If you have applied for 500,000 Shares or more indicated on your application form that you will collect your refund cheque (if any) in person, please follow the instructions set out under the paragraph headed "WHITE application forms" above.

If you have applied for 500,000 Shares or more and have not indicated on your application form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 500,000 Public Offer Shares, then your refund cheque(s) (if any) will be sent to the address stated on your application form on or shortly after the expiry of the time specified for collection on 16 December 2005 by ordinary post at your own risk.

Part of your Hong Kong Identity Card number/passport number, or if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

PINK application forms:

The share certificate(s) will be sent to the address on your application form on the date of despatch (which is expected to be 16 December 2005), by ordinary post and at your own risk.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

RESULT OF ALLOCATIONS

The final Offer Price, the indication of the level of interest in the Placing and the results of allocations and the basis of allotment of the Public Offer Shares under the Public Offer, including applications made under **WHITE**, **YELLOW** and **PINK** application forms, are expected to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before 12 December 2005.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the shares on the Stock Exchange is expected to commence on 20 December 2005. Shares will be traded in board lots of 2,000 Shares each. The stock code for the Shares on the Stock Exchange is 2005.

The following is the text of a report, prepared for the purpose of incorporation in the prospectus, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

2 December 2005

The Directors
Lijun International Pharmaceutical (Holding) Co., Ltd.
VXL Financial Services Limited

Dear Sirs,

We set out below our report on the financial information relating to Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2004 and 2005 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 2 December 2005 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 28 September 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Section II – Note 1 below (the "Reorganisation"), which was completed on 28 December 2004, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Section II – Note 1. All companies comprising the Group have adopted 31 December as their financial year end date.

No audited accounts have been prepared by the Company since the date of its incorporation as it was newly incorporated and has not been involved in any significant business transactions other than the Reorganisation.

Xi'an Lijun Pharmaceutical Co., Ltd. prepares its accounts in accordance with the relevant accounting principles and financial regulations applicable to limited liability companies established in the People's Republic of China (the "PRC"). Its accounts as at and for the years ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2005 were audited by Yuehua Certified Public Accountant Co., Ltd. (岳華會計師事務所) in the PRC. The auditor's opinion on the accounts as at and for the years ended 31 December 2002 and 2003 were qualified with respect to the non-timely recognition of revenue and cost, as this was not in compliance with Accounting Standard for

Business Enterprise in the People's Republic of China (the "PRC GAAP"). For the purpose of this accountants' report, adjustments have been made by the directors of Xi'an Lijun Pharmaceutical Co., Ltd. to restate the management accounts and we have carried out appropriate audit procedures in respect of the restated accounts in accordance with Statement of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKCIPA").

Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. prepares its accounts in accordance with the relevant accounting principles and financial regulations applicable to limited liability companies established in the PRC. Its accounts as at and for the year ended 31 December 2003 were audited by Qinyue Certified Public Accountant Co., Ltd. (陝西秦約有限責任會計師事務所) in the PRC. Its accounts as at and for the year ended 31 December 2004 and the six months ended 30 June 2005 were audited by Yuehua Certified Public Accountant Co., Ltd. (岳華會計師事務所) in the PRC. The auditor's opinion on the accounts as at and for the year ended 31 December 2003 were qualified with respect to the non provision of depreciation for property, plant and equipment and amortisation for land use rights, as these were not in compliance with the PRC GAAP. For the purpose of this accountants' report, adjustments have been made by the directors of Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd to restate the management accounts and we have carried out appropriate audit procedures in respect of the restated accounts in accordance with Statements of Auditing Standards issued by the HKICPA.

Xi'an Rejoy Real Estate Co., Ltd. prepares its accounts in accordance with the relevant accounting principles and financial regulations applicable to limited liability companies established in the PRC. No audited accounts have been prepared during the Relevant Periods because there is no statutory requirement to prepare such accounts for a non stated-owned enterprise. In 2004, Xi'an Lijun Pharmaceutical Co., Ltd. disposed of its equity interests in this associated company.

For the purpose of this report, we have examined the audited accounts or, where appropriate, the restated and unaudited management accounts of the associated company and all the companies now comprising the Group for the Relevant Periods or since the respective dates of incorporation/ establishment or effective acquisition by the Group where it is a shorter period, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have reviewed the financial information of the Group for the six months ended 30 June 2004, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information of the Group for the six months ended 30 June 2004.

The financial information as set out in sections I to IV below ("the Financial Information") has been prepared based on the audited accounts or, where appropriate, the restated and unaudited management accounts of the associated company and all the companies now comprising the Group, on the basis set out in Section II – Note 1 below, after making such adjustments as are appropriate.

The directors of the respective companies, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis as set out in Section II – Note 1 below, gives a true and fair view of the consolidated state of affairs of the Group as at 31 December 2002, 2003, 2004 and 30 June 2005, and of the consolidated results and cash flows of the Group for the periods then ended, and state of affair of the Company as at 31 December 2004 and 30 June 2005.

Moreover, on the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to financial information for the six months ended 30 June 2004.

I. FINANCIAL INFORMATION ABOUT THE GROUP

The following is the consolidated accounts of the Group as at 31 December 2002, 2003 and 2004 and 30 June 2005, and for each of the three years ended 31 December 2002, 2003 and 2004 and six months ended 30 June 2004 and 2005, prepared on the basis set out in section II Note 1 below:

Consolidated Profit and Loss Accounts

		Year ended 31 December			Six months ended 30 June	
	Section II Notes	**2002** *RMB'000*	**2003** *RMB'000*	**2004** *RMB'000*	**2004** *RMB'000* (Unaudited)	**2005** *RMB'000*
Sales	*5*	860,863	896,307	903,006	457,531	433,092
Cost of goods sold		(393,723)	(417,771)	(449,318)	(217,681)	(218,824)
Gross profit		467,140	478,536	453,688	239,850	214,268
Other gains – net	*5*	1,160	2,399	2,100	1,285	431
Selling and marketing costs		(254,542)	(260,843)	(220,599)	(123,344)	(102,678)
General and administrative expenses		(95,734)	(113,104)	(96,686)	(47,023)	(48,784)
Operating profit	*6*	118,024	106,988	138,503	70,768	63,237
Finance costs	*7*	(1,507)	(3,933)	(7,111)	(2,944)	(4,744)
Share of loss of an associated company		–	(265)	–	–	–
Profit before income tax		116,517	102,790	131,392	67,824	58,493
Income tax expense	*8*	(40,493)	(15,056)	(22,331)	(12,300)	(11,885)
Profit for the year/period		76,024	87,734	109,061	55,524	46,608
Attributable to:						
Equity holders of the Company		60,819	70,333	88,632	44,498	37,556
Minority interest		15,205	17,401	20,429	11,026	9,052
		76,024	87,734	109,061	55,524	46,608
Dividends	*11*	52,725	63,270	89,774	–	4,218

Consolidated Balance Sheets

	Section II Notes	As at 31 December 2002 RMB'000	As at 31 December 2003 RMB'000	As at 31 December 2004 RMB'000	As at 30 June 2005 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	*13*	269,425	313,874	335,313	326,822
Land use rights	*14*	3,218	10,147	10,014	9,950
Interest in an associated company	*15*	2,400	2,135	–	–
Deferred income tax assets	*18*	20,814	25,081	22,558	10,736
Other investments/Available-for-sale financial assets	*16*	480	609	609	609
Goodwill	*17*	–	676	601	601
		296,337	352,522	369,095	348,718
Current assets					
Inventories	*19*	81,663	92,561	81,059	89,799
Trade and bills receivables	*20*	33,074	56,990	153,984	164,906
Prepayments, deposits and other receivables	*21*	13,297	16,666	43,013	34,406
Amounts due from related parties	*31(c)*	59,567	47,715	789	218
Bank and cash balances	*22*	111,515	95,257	138,674	104,959
		299,116	309,189	417,519	394,288
Total assets		595,453	661,711	786,614	743,006
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*28*	–	–	1	1
Other reserves	*29*	222,788	242,505	259,318	293,500
		222,788	242,505	259,319	293,501
Minority interest		73,134	83,548	86,022	94,230
Total equity		295,922	326,053	345,341	387,731
LIABILITIES					
Non-current liabilities					
Long-term bank loans	*26*	20,000	10,000	3,000	3,000
Long-term payables	*27*	11,809	15,874	15,342	15,039
Shareholders' loan	*31(c)*	–	–	47,594	47,594
		31,809	25,874	65,936	65,633
Current liabilities					
Trade and bills payables	*23*	32,425	40,313	48,282	51,709
Deposits and advance receipts from customers	*24*	23,368	27,274	32,235	32,451
Accruals and other payables	*25*	115,382	131,819	114,482	79,525
Amounts due to related parties	*31(c)*	11,257	6,288	3,236	22
Income tax payable		1,572	392	17,456	14,628
Dividend payable	*11, 31(c)*	52,725	32,685	24,743	8,461
Short-term bank loans	*26*	30,000	60,000	122,000	100,000
Current portion of long-term bank loans	*26*	–	10,000	12,000	2,000
Current portion of long-term payables	*27*	993	1,013	903	846
		267,722	309,784	375,337	289,642
Total liabilities		299,531	335,658	441,273	355,275
Total equity and liabilities		595,453	661,711	786,614	743,006
Net current assets/(liabilities)		31,394	(595)	42,182	104,646
Total assets less current liabilities		327,731	351,927	411,277	453,364

Consolidated Cash Flow Statements

	Section II Notes	Year ended 31 December 2002 RMB'000	Year ended 31 December 2003 RMB'000	Year ended 31 December 2004 RMB'000	Six months ended 30 June 2004 RMB'000 (unaudited)	Six months ended 30 June 2005 RMB'000
Cash flows from operating activities:						
Net cash inflow generated from operations	30(a)	109,160	126,803	56,759	9,808	33,522
Interest paid		(1,507)	(3,933)	(7,111)	(2,944)	(4,744)
Income tax paid		(88,223)	(20,503)	(2,744)	–	(2,891)
Net cash generated from operating activities		19,430	102,367	46,904	6,864	25,887
Cash flows from investing activities:						
Purchase of property, plant and equipment	13	(67,648)	(83,198)	(56,747)	(33,750)	(5,516)
Interest received		1,160	1,549	1,735	1,185	431
Proceeds from sale of property, plant and equipment	30(e)	–	926	1,631	259	–
Acquisition of a subsidiary	30(c)	–	4,062	–	–	–
Disposal of an associated company	15, 30(d)	–	–	2,400	–	–
Increase in interests in available-for-sale investments		(480)	(129)	–	–	–
Decrease in due from related parties		18,541	11,475	43,627	4,543	320
Net cash used in investing activities		(48,427)	(65,315)	(7,354)	(27,763)	(4,765)
Cash flows from financing activities:	30(b)					
New bank loans		30,000	60,000	157,000	82,000	30,000
Repayment of bank loans		(4,000)	(30,000)	(100,000)	(60,000)	(62,000)
Capital injection from shareholders		–	–	1	–	–
Dividend paid		(46,398)	(83,310)	(50,122)	(31,785)	(20,500)
Professional fees		–	–	(3,012)	(1,434)	(2,337)
Net cash (used in)/generated from financing activities		(20,398)	(53,310)	3,867	(11,219)	(54,837)
(Decrease)/increase in bank and cash balances		(49,395)	(16,258)	43,417	(32,118)	(33,715)
Bank and cash balances at beginning of year/period		160,910	111,515	95,257	95,257	138,674
Bank and cash balances at end of year/period	22	111,515	95,257	138,674	63,139	104,959

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company		Minority interest	Total
	Share capital *(Note 28)* *RMB'000*	Other reserves *(Note 29)* *RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2002	–	204,149	68,474	272,623
Profit for the year	–	60,819	15,205	76,024
Dividends declared	–	(42,180)	(10,545)	(52,725)
Balance at 31 December 2002	–	222,788	73,134	295,922
Profit for the year	–	70,333	17,401	87,734
Dividends declared	–	(50,616)	(12,654)	(63,270)
Acquisition of equity interest in a subsidiary *(Section II Note 30(c))*	–	–	5,667	5,667
Balance at 31 December 2003	–	242,505	83,548	326,053
Capital injection	1	–	–	1
Profit for the year	–	88,632	20,429	109,061
Dividends declared	–	(71,819)	(17,955)	(89,774)
Balance at 31 December 2004	1	259,318	86,022	345,341
Profit for the period	–	37,556	9,052	46,608
Dividends declared	–	(3,374)	(844)	(4,218)
Balance at 30 June 2005	1	293,500	94,230	387,731

	Attributable to equity holders of the Company		Minority interest	Total
	Share capital *(Note 28)* *RMB'000* (Unaudited)	Other reserves *(Note 29)* *RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Balance at 31 December 2003	–	242,505	83,548	326,053
Profit for the period	–	44,498	11,026	55,524
Balance at 30 June 2004	–	287,003	94,574	381,577

II. NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PREPARATION

(a) Reorganisation

The Company was incorporated in the Cayman Islands on 28 September 2004. The Company undertook the Reorganisation, mainly comprised the following:

(i) Pursuant to the agreements dated 28 December 2004 entered into between the Company and the respective shareholders of Xi'an Lijun Pharmaceutical Co., Ltd., except for Victory Rainbow Investment Limited, the Company acquired an aggregate of 51.49% equity interest in Xi'an Lijun Pharmaceutical Co., Ltd. for an aggregate cash consideration of RMB152,040,000, which was financed by shareholders' loans. On the same date, the shareholders waived their entitlement to these shareholders' loans (Section III Note 3).

(ii) Pursuant to the agreement dated 28 December 2004 entered into between the Company and Victory Rainbow Investment Limited, the Company acquired 28.51% equity interest in Xi'an Lijun Pharmaceutical Co., Ltd., by the allotment and issue of 3,564 shares of the Company to Victory Rainbow Investment Limited (Note 28).

Upon completion of the Reorganisation, Xi'an Lijun Pharmaceutical Co., Ltd had 51% equity interest in Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd., which was acquired by Xi'an Lijun Pharmaceutical Co., Ltd, in July 2003.

After the above group reorganisation, the Company became the holding company of following subsidiaries now comprising the Group:

Company Name	Place and date of establishment	Legal status	Percentage of equity interest attributable to the Group	Registered and fully paid capital	Principal activities
Xi'an Lijun Pharmaceutical Co., Ltd.	PRC, 28 November 1999	Limited liability company	80% (Directly held)	RMB210,900,000	Manufacturing and sale of pharmaceutical products
Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd.	PRC, 26 April 2001	Limited liability company	41% (Indirectly held)	RMB10,000,000	Manufacturing and sale of traditional Chinese medicine

(b) Basis of preparation

The Group resulting from the Reorganisation referred to in Note 1(a) above is regarded as a continuing entity. Accordingly, the consolidated accounts have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group throughout the years/periods, or from their respective dates of incorporation/establishment or effective acquisition by the Group, where this is a shorter period. In the opinion of the directors of the Company, the consolidated accounts prepared on the above basis present more fairly the state of affairs, results and cash flows of the Group as a whole.

Minority interest represents the interest of outside shareholders in the results of operating and net assets of the subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The Financial Information has been prepared under the historical cost convention, except for fair value adjustments on available-for-sale investments.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 of this section.

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior years have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the profit and loss accounts on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss accounts. In prior years, the land use rights was treated as property, plant and equipment and therefore accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period of 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provision of HKFRS 3 (see Note 2(d) of this section):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the period ended 30 June 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been retrospectively made in accordance with the respective transitional provisions, wherever required or allowed. The accounting policies set out below have been consistently applied throughout the Relevant Periods, other than:

HKAS 39 – generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

HKFRS 3 – prospectively after 1 January 2005.

(a) Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for the merger accounting for group reorganisation as mentioned in Note 1(b), the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss accounts. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less accumulated impairment losses, if any. The results of subsidiary are accounted by the Company on the basis of dividend received and receivable.

All significant intra-group transactions and balances within the Group have been eliminated upon consolidation.

(ii) *Associated companies*

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associated company is accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss accounts, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

(c) Translation of foreign currencies

(i) *Functional and presentation currency*

Items included in the account of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information are presented in Chinese Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss accounts.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Effective from 1 January 2005, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss accounts during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 – 40 years
Machinery	8 – 18 years
Furniture and fixtures	8 – 10 years
Vehicles	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the profit and loss accounts.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(f) Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the use terms of 50 years using the straight-line method.

(g) Available-for-sale financial assets

Effective from 1 January 2005, available-for-sale financial assets are non-derivatives that are designated in this category upon initial recognition and reassessment at every reporting date. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of such investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs and subsequently carried at fair value. They are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss accounts as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss accounts – is removed from equity and recognised in the profit and loss accounts. Impairment losses recognised in the profit and loss accounts on equity instruments are not reversed through the profit and loss accounts.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss accounts.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss accounts over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed as incurred.

(m) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Employees benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of service rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes on a monthly basis to defined contribution plans organised by provincial government in the PRC based on a percentage of the relevant employee's monthly salaries. The Group's contributions to defined contributions plans are expensed as incurred. The Group has no legal or constructive obligations to pay further contribution even if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

Compensations for employee termination and early retirement and early retirement are recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

(o) Provisions

Provisions recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

(p) Government grants

A government grant in the form of subsidy or financial refund is recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss accounts over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

(q) Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Processing income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time proportion basis using the effective interest method.

(r) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss accounts on a straight-line basis over the lease periods.

(s) Research and development costs

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

(t) Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings have been disclosed in Note 26 of this section.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade and bills receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, foreign currencies, mainly United States Dollars ("USD"), are required to settle the Group's sales of bulk pharmaceuticals to overseas customers and the relative expenses. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's bank and cash balances as at 31 December 2002, 2003 and 2004 and 30 June 2005 are disclosed in Note 22 of this section.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. RMB against USD was relatively stable during the Relevant Periods and as a result, the Group considers it has no material foreign exchange risk.

(b) Fair value estimation

The carrying amounts of the Group's financial assets which mainly include bank and cash balances, trade and bills receivables, other receivables; and financial liabilities, which mainly include trade and bills payables, short-term bank loans, approximate their fair values due to their short maturities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 26 in this section.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations by the balance sheet date.

(iii) Impairment of trade and bills receivables

The Group's management determines the provision for impairment of trade and bills receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision on each of the balance sheet date.

(iv) Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(h) of this section. The recoverable amounts have been determined based on fair value less costs to sell, which is based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

5. SALES, OTHER GAINS AND SEGMENT INFORMATION

(a) Sales and other gains

The Group is principally engaged in the manufacturing and sale of pharmaceutical products. Revenue recognised is as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales:					
– Sales of pharmaceutical products	853,827	890,228	897,029	454,477	430,544
– Sales of raw materials and by products	2,218	1,293	1,473	630	780
– Processing income	4,818	4,786	4,504	2,424	1,768
	860,863	896,307	903,006	457,531	433,092
Other gains – net:					
– Interest income	1,160	1,549	1,735	1,185	431
– Subsidy income*	–	850	100	100	–
– Gain of investment disposal**	–	–	265	–	–
	1,160	2,399	2,100	1,285	431
	862,023	898,706	905,106	458,816	433,523

* *Subsidy was received from local government.*

** *Gain of investment disposal represents the net income from the disposal of the interest in an associated company in 2004.*

(b) Segment information

The Group primarily operates in one business segment – manufacturing and sale of pharmaceutical products. It operates principally in one geographical segment – the PRC. Substantially all of the Group's assets were located in the PRC. Accordingly, no analysis of segment information is presented.

6. OPERATING PROFIT

Operating profit is stated after charging/crediting the following items:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Crediting					
Reversal of inventory write-down	(3,125)	–	(4,556)	(3,734)	(1,015)
Charging					
Cost of inventories	264,629	289,768	309,058	151,178	156,531
Staff costs including directors' emoluments					
– wages and salaries	44,138	44,773	51,893	27,070	33,707
– pension costs *(note 9)*	8,674	8,864	9,523	8,073	5,713
– welfare expenses	15,113	18,393	17,013	8,439	5,296
Depreciation of property, plant and equipment	23,615	32,523	36,398	18,194	17,671
Impairment loss of property, plant and equipment	1,036	5,336	865	865	–
Loss on disposal of property, plant and equipment	83	458	80	–	–
Amortisation of land use rights (charged to general and administrative expenses)	69	101	133	64	64
Amortisation of goodwill (charged to general and administrative expenses)	–	75	75	37	–
Write-down of inventory to net realisable value	–	544	–	–	–
Provision for impairment of receivables	4,380	6,464	1,404	704	992
Operating leases-rental expenses in respect of land use right in the PRC	6,826	6,826	6,826	3,448	2,702
Advertising expenses	125,446	134,545	79,854	53,030	23,667
Research and development costs	6,197	7,505	6,166	3,085	2,680
Auditors' remuneration	230	160	829	502	738
Professional fees	–	–	2,108	1,004	1,636

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest expense					
– On bank borrowings wholly repayable within five years	1,427	3,467	5,446	2,438	3,471
– Others	80	466	1,665	506	1,273
	1,507	3,933	7,111	2,944	4,744

8. TAXATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

No Hong Kong profits tax was provided as the Group had no assessable profit in Hong Kong during the Relevant Periods.

According to relevant PRC rules and regulations, Xi'an Lijun Pharmaceutical Co., Ltd., being qualified as an encouraged domestic enterprise in the western region of the PRC, is entitled to preferential PRC Enterprise Income Tax ("EIT") rate of 15% from 2002 to 2004, on an annual approval basis.

In December 2004, Xi'an Lijun Pharmaceutical Co., Ltd. has obtained approval to be designated as a sino-foreign joint venture enterprise and therefore ceased to be entitled to the preferential EIT rate of 15%. In May 2005, the EIT rate of Xi'an Lijun Pharmaceutical Co., Ltd has been approved to be 24%, which was effective from 1 January 2005. Being incorporated as foreign investment enterprise in PRC, Xi'an Lijun Pharmaceutical Co., Ltd. has obtained approvals in May 2005 from the relevant tax authorities in Xi'an, which is also effective from 1 January 2005, for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in PRC.

The amounts of taxation charged to the profit and loss accounts represent:

	Year ended 31 December			**Six months ended 30 June**	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
EIT	20,555	19,323	19,808	7,599	63
Deferred taxation *(Note 18)*	19,938	(4,267)	2,523	4,701	11,822
	40,493	15,056	22,331	12,300	11,885

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the EIT rate as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before income tax	116,517	102,790	131,392	67,824	58,493
Weighted average EIT rates in PRC	15%	15%	15%	15%	24%
Tax calculated at the weighted average EIT rate	17,478	15,419	19,709	10,174	14,038
Tax exemption	–	–	–	–	(12,749)
Additional deductible expense allowance granted by tax authorities	(33)	(1,657)	(1,617)	(818)	–
Expenses not deductible for tax purpose	819	1,388	3,912	3,787	1,900
Effect of change of tax rate for the calculation deferred taxation	22,229	–	–	–	8,633
Others	–	(94)	327	(843)	63
Tax charge	40,493	15,056	22,331	12,300	11,885

9. RETIREMENT BENEFITS

(a) Pension obligations

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 retirement persons. The Group has no further pension obligation beyond the above contributions.

(b) Early retirement benefits

Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms of early retirement, or after the individual employee has been advised of the specific terms.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments of all executive directors during the Relevant Periods, on a named basis, are set out as below:

Name of Director	Fees	Salary	Other benefits	Contribution to state-sponsored retirement plans	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2002					
Mr. Wu Qin	–	477	3	5	485
Mr. Wu Zhihong	–	479	2	4	485
Mr. Huang Chao	–	397	2	5	404
Mr. Xie Yunfeng	–	238	2	4	244
Ms. Sun Xinglai	–	198	2	4	204
	–	1,789	11	22	1,822
2003					
Mr. Wu Qin	–	482	3	6	491
Mr. Wu Zhihong	–	482	3	6	491
Mr. Huang Chao	–	397	3	6	406
Mr. Xie Yunfeng	–	226	3	6	235
Ms. Sun Xinglai	–	189	2	5	196
	–	1,776	14	29	1,819

Name of Director	Fees	Salary	Other benefits	Contribution to state-sponsored retirement plans	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2004					
Mr. Wu Qin	–	516	4	7	527
Mr. Wu Zhihong	–	486	4	7	497
Mr. Huang Chao	–	447	3	7	457
Mr. Xie Yunfeng	–	247	3	7	257
Ms. Sun Xinglai	–	247	3	6	256
	–	1,943	17	34	1,994
Six months ended 30 June 2004 (unaudited)					
Mr. Wu Qin	–	68	2	4	74
Mr. Wu Zhihong	–	65	2	4	71
Mr. Huang Chao	–	65	1	3	69
Mr. Xie Yunfeng	–	36	1	3	40
Ms. Sun Xinglai	–	35	1	3	39
	–	269	7	17	293
Six months ended 30 June 2005					
Mr. Wu Qin	–	70	2	4	76
Mr. Wu Zhihong	–	65	2	4	71
Mr. Huang Chao	–	70	2	4	76
Mr. Xie Yunfeng	–	39	2	4	45
Ms. Sun Xinglai	–	42	1	3	46
	–	286	9	19	314

No Directors of the Company waived any emoluments during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the Relevant Periods are also directors of the Company and their emoluments are detailed in (a) above.

(c) During the Relevant Periods, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDENDS

No dividend has been declared or paid by the Company since its incorporation.

The dividends disclosed during the Relevant Periods represent dividends declared by the Group's subsidiaries to their then shareholders. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2002						
Cost	114,258	172,903	9,342	12,752	23,918	333,173
Accumulated depreciation and impairment losses	(24,405)	(79,447)	(2,438)	(3,359)	–	(109,649)
Net book amount	89,853	93,456	6,904	9,393	23,918	223,524
Year ended 31 December 2002						
Opening net book amount	89,853	93,456	6,904	9,393	23,918	223,524
Addition	847	92	2,369	2,816	64,511	70,635
Transfer	25,918	23,193	–	–	(49,111)	–
Disposals	–	–	–	(83)	–	(83)
Depreciation charge	(3,892)	(17,347)	(1,220)	(1,156)	–	(23,615)
Impairment charge	–	(1,036)	–	–	–	(1,036)
Closing net book amount	112,726	98,358	8,053	10,970	39,318	269,425
At 31 December 2002						
Cost	141,023	196,188	11,711	15,094	39,318	403,334
Accumulated depreciation and impairment losses	(28,297)	(97,830)	(3,658)	(4,124)	–	(133,909)
Net book amount	112,726	98,358	8,053	10,970	39,318	269,425
Year ended 31 December 2003						
Opening net book amount	112,726	98,358	8,053	10,970	39,318	269,425
Acquisition of a subsidiary *(Note 30(c))*	1,699	1,183	–	240	104	3,226
Additions	125	573	3,294	9,785	66,689	80,466
Transfer	22,984	39,933	–	–	(62,917)	–
Disposals	(50)	(349)	–	(985)	–	(1,384)
Depreciation charge	(6,128)	(21,618)	(1,457)	(3,320)	–	(32,523)
Impairment charge	(3,274)	(1,949)	(12)	(101)	–	(5,336)
Closing net book amount	128,082	116,131	9,878	16,589	43,194	313,874

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 31 December 2003						
Cost	165,656	237,472	15,005	23,693	43,194	485,020
Accumulated depreciation and impairment losses	(37,574)	(121,341)	(5,127)	(7,104)	–	(171,146)
Net book amount	128,082	116,131	9,878	16,589	43,194	313,874
Year ended 31 December 2004						
Opening net book amount	128,082	116,131	9,878	16,589	43,194	313,874
Additions	663	2,426	3,308	1,960	52,056	60,413
Transfer	41,498	31,461	107	–	(73,066)	–
Disposals	(1,226)	(31)	(441)	(13)	–	(1,711)
Depreciation charge	(7,848)	(23,606)	(2,404)	(2,540)	–	(36,398)
Impairment charge	(804)	–	–	(61)	–	(865)
Closing net book amount	160,365	126,381	10,448	15,935	22,184	335,313
At 31 December 2004						
Cost	201,291	256,893	17,054	24,694	22,184	522,116
Accumulated depreciation and impairment losses	(40,926)	(130,512)	(6,606)	(8,759)	–	(186,803)
Net book amount	160,365	126,381	10,448	15,935	22,184	335,313
Period ended 30 June 2005						
Opening net book amount	160,365	126,381	10,448	15,935	22,184	335,313
Additions	1,659	3,052	136	297	4,036	9,180
Transfer	1,047	2,678	–	–	(3,725)	–
Charge for the period	(2,811)	(12,426)	(1,243)	(1,191)	–	(17,671)
Closing net book amount	160,260	119,685	9,341	15,041	22,495	326,822
At 30 June 2005						
Cost	203,997	262,623	17,190	24,991	22,495	531,296
Accumulated depreciation and impairment losses	(43,737)	(142,938)	(7,849)	(9,950)	–	(204,474)
Net book amount	160,260	119,685	9,341	15,041	22,495	326,822

The buildings are located in the city of Xi'an and Weinan, Shanxi Province, the PRC.

The impairment for property, plant and equipment is recognised in accordance with the accounting policy and estimates stated in Note 2(h) and Note 4(iv) respectively.

14. LAND USE RIGHTS

	RMB'000
At 1 January 2002	
Cost	3,425
Accumulated amortisation	(138)
Net book amount	3,287
Year ended 31 December 2002	
Opening net book amount	3,287
Amortisation charge	(69)
Closing net book amount	3,218
At 31 December 2002	
Cost	3,425
Accumulated amortisation	(207)
Net book amount	3,218
Year ended 31 December 2003	
Opening net book amount	3,218
Acquisition of a subsidiary *(Note 30(c))*	3,030
Additions	4,000
Amortisation charge	(101)
Closing net book amount	10,147
At 31 December 2003	
Cost	10,455
Accumulated amortisation	(308)
Net book amount	10,147
Year ended 31 December 2004	
Opening net book amount	10,147
Amortisation charge	(133)
Closing net book amount	10,014
At 31 December 2004	
Cost	10,455
Accumulated amortisation	(441)
Net book amount	10,014
Period ended 30 June 2005	
Opening net book amount	10,014
Amortisation charge for the period	(64)
Closing net book amount	9,950
At 30 June 2005	
Cost	10,455
Accumulated amortisation	(505)
Net book amount	9,950

All of the Group's land use rights are located the city of Xi'an and Weinan, Shanxi Province, the PRC and are held on leases of 50 years from the dates of acquisition.

As at 31 December 2002, 2003 and 2004 and June 2005, the net book amount of the Group's land use rights of approximately Nil, Nil, RMB4,000,000 and RMB4,000,000, respectively, was pledged as collateral for the Group's bank loans (Note 26).

15. INVESTMENT IN AN ASSOCIATED COMPANY

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Shares of net assets	2,400	2,135	–	–

Details of the associated company as at 31 December 2002 and 2003 were:

Name	Place and date of establishment	Legal status	Percentage of equity interest attributable to the Group	Registered, issued and fully paid capital	Principal activities
Xi'an Rejoy Real Estate Co., Ltd.	PRC 2 April 2001	Limited liability company	30% (indirectly held)	RMB8,000,000	Construction and sale of real estate

On 24 December 2004, the Group disposed its entire 30% equity interest in Xi'an Rejoy Real Estate Co., Ltd. for a consideration of RMB2,400,000, resulting in a gain of approximately RMB265,000.

16. OTHER INVESTMENTS/AVAILABLE-FOR-SALE FINANCIAL ASSETS

Other investments (from 1 January 2002 to 31 December 2004)/Available-for-sale financial assets (effective from 1 January 2005) represent unlisted and listed shares in certain limited liability companies in the PRC.

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equity securities:				
Xi'an Lijun Transportation Co., Ltd.				
– unlisted	–	129	129	129
Sichuan Quanxing Co., Ltd.				
– listed	480	480	480	480
	480	609	609	609

The Group's investment in unlisted shares represents the 14.37% share of a joint venture in the PRC, Xi'an Lijun Transportation Co., Ltd.

The Directors deemed the carrying amounts approximate their fair values and there is no significant impairment to these available-for-sale financial assets.

17. GOODWILL

	RMB'000
Year ended 31 December 2003	
Additions	751
Amortisation expenses charged	(75)
Closing net book amount	676
At 31 December 2003	
Cost	751
Accumulated amortisation	(75)
Net book amount	676
Year ended 31 December 2004	
Opening net book amount	676
Additions	–
Amortisation expenses charged	(75)
Closing net book amount	601
At 31 December 2004	
Cost	751
Accumulated amortisation	(150)
Net book amount	601
Period ended 30 June 2005	
Opening net book amount	601
Additions	–
Closing net book amount	601
At 30 June 2005	
Cost	601

18. DEFERRED INCOME TAX ASSETS

	As at 31 December			As at 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Deferred tax assets:					
– Deferred tax assets to be recovered after more than 12 months	15,107	16,459	13,995	15,185	10,736
– Deferred tax assets to be recovered within 12 months	5,707	8,622	8,563	5,195	–
	20,814	25,081	22,558	20,380	10,736

The movements in deferred tax assets are as follows:

	Accrual of sales commission and others	Provisions for impairment of trade receivables	Inventory write-down	Provisions for impairment of property, plant and equipment	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2002	12,482	11,636	6,488	8,499	1,647	40,752
Recognised in the profit and loss accounts *(Note 8)*	(6,775)	(5,717)	(4,007)	(1,884)	(1,555)	(19,938)
At 31 December 2002	5,707	5,919	2,481	6,615	92	20,814
Recognised in the profit and loss accounts *(Note 8)*	2,915	955	81	(622)	938	4,267
At 31 December 2003	8,622	6,874	2,562	5,993	1,030	25,081
Recognised in the profit and loss accounts *(Note 8)*	(59)	119	(683)	(1,623)	(277)	(2,523)
At 31 December 2004	8,563	6,993	1,879	4,370	753	22,558
Recognised in the profit and loss accounts *(Note 8)*	(8,563)	(932)	(498)	(2,103)	274	(11,822)
At 30 June 2005	–	6,061	1,381	2,267	1,027	10,736
At 31 December 2003	8,622	6,874	2,562	5,993	1,030	25,081
Recognised in the profit and loss accounts *(Note 8)*	(3,427)	64	(560)	(673)	(105)	(4,701)
At 30 June 2004	5,195	6,938	2,002	5,320	925	20,380

19. INVENTORIES

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	34,217	21,126	28,421	33,433
Work in progress	12,253	22,301	12,513	9,454
Finished goods	30,672	47,023	37,994	43,941
Low value articles and packaging materials	4,521	2,111	2,131	2,971
	81,663	92,561	81,059	89,799

The cost of inventories recognised as expenses and included in cost of goods sold amounted to approximately RMB264,629,000, RMB289,768,000, RMB309,058,000 and RMB156,531,000 for the year of 2002, 2003 and 2004 and for the six months ended 30 June 2005.

20. TRADE AND BILLS RECEIVABLES

The Group generally required its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables is as follows:

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	28,385	51,732	144,032	118,731
4 to 6 months	1,020	4,127	11,172	27,400
7 to 12 months	4,092	2,108	2,654	22,534
1 to 2 years	4,881	5,501	2,774	3,773
2 to 3 years	13,057	4,611	3,827	1,729
More than 3 years	18,140	30,816	16,798	18,322
	69,575	98,895	181,257	192,489
Less: provision for impairment of receivables	(36,501)	(41,905)	(27,273)	(27,583)
	33,074	56,990	153,984	164,906

The Group has recognised a loss of approximately RMB4,380,000, RMB6,464,000, RMB1,404,000 and RMB992,000 for impairment of its trade receivables during the year ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2005, respectively. The loss has been included in general and administrative expenses.

There is no concentration of credit risk with respect to trade and bills receivables, as the Group has a large number of customers, nationally dispersed. The carrying amount of the trade and bills receivables approximate their fair value.

The Group wrote off its trade receivables of approximately RMB16,927,000 against provision in January 2004.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	218	218	–	1,764
Receivables related to disposal of staff quarters	9,097	3,280	9,770	12,504
Prepayments to suppliers	1,514	7,574	25,935	12,625
Prepaid advertising expenses	2,462	4,319	3,068	1,965
Other receivables	6	1,275	4,240	5,548
	13,297	16,666	43,013	34,406

22. BANK AND CASH BALANCES

Bank and cash balances were denominated in currencies as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	111,515	93,063	136,484	102,822
USD	–	2,194	2,190	2,137
	111,515	95,257	138,674	104,959

Bank and cash balances represented cash and cash equivalents. RMB is not a freely convertible currency in the international market. The remittance of these RMB funds out of the PRC is subject to the exchange control restrictions imposed by the PRC Government.

The weighted average effective interest rate per annum on cash at bank were 0.72% at 31 December 2002, 2003 and 2004 and 30 June 2005.

23. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts payable	32,425	40,313	48,282	51,559
Bills payable	–	–	–	150
	32,425	40,313	48,282	51,709

The carrying amounts of the trade and bills payables approximate their fair value.

Ageing analysis of accounts and bills payable at respective balance sheet dates are as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	29,695	36,650	42,843	46,866
4 to 6 months	201	451	579	1,179
7 to 12 months	194	560	2,323	710
1 to 3 years	1,259	1,369	1,112	1,388
More than 3 years	1,076	1,283	1,425	1,566
	32,425	40,313	48,282	51,709

24. DEPOSITS AND ADVANCE RECEIPTS FROM CUSTOMERS

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance receipts from customers	20,030	23,709	32,235	32,451
Guarantee deposits from customers	3,338	3,565	–	–
	23,368	27,274	32,235	32,451

25. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued distribution expenses	35,200	31,673	27,566	19,329
Accrued advertising expenses	13,497	31,548	10,251	4,275
Advertising expense payables	1,259	3,270	12,546	7,997
Welfare payables	19,339	25,860	25,343	19,200
Taxation payables, other than income tax	22,327	15,497	11,865	8,186
Salary and wages payable	18,736	13,835	13,632	8,507
Others	5,024	10,136	13,279	12,031
	115,382	131,819	114,482	79,525

26. BANK LOANS

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
– Due within one year	–	10,000	12,000	2,000
– Due over one year	20,000	10,000	3,000	3,000
Current	30,000	60,000	122,000	100,000
Total borrowings	50,000	80,000	137,000	105,000
Representing:				
Unsecured	30,000	30,000	70,000	90,000
Secured*	–	–	5,000	5,000
Guaranteed**	20,000	50,000	62,000	10,000
	50,000	80,000	137,000	105,000

* *As at 31 December 2002, 2003 and 2004 and 30 June 2005, the net book amount of the Group's land use rights (Note 14) of approximately Nil, Nil, RMB4,000,000, RMB4,000,000, respectively, was pledged as collateral for the Group's bank loans.*

** *The guaranteed bank loan as at 31 December 2002, 2003 and 2004 and 30 June 2005 was guaranteed by the Rejoy Group Limited Liability Company.*

(a) An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB				
– at floating rates	50,000	80,000	137,000	105,000

(b) The weighted average effective interest rates per annum for bank loans at 31 December 2002, 2003, 2004 and 30 June 2005 were 5.83%, 5.53%, 5.90% and 6.04%, respectively.

(c) The maturity of the Group's non-current bank borrowings at respective balance sheet dates is as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	–	10,000	12,000	2,000
Between 1 to 2 years	10,000	10,000	3,000	3,000
Between 2 to 5 years	10,000	–	–	–
	20,000	20,000	15,000	5,000

(d) The carrying amounts and fair values of non-current bank borrowings are as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying values	20,000	20,000	15,000	5,000
Fair values	20,356	20,293	15,152	5,044

The fair values are based on discounted cash flows using rates based on the borrowings rates at 5.58%, 5.58%, 5.85% and 5.76% as at 31 December 2002, 2003, 2004 and 30 June 2005, with reference to the types and currencies of borrowings.

The carrying amounts of current borrowings approximate their fair values.

(e) The collateral of the Group's borrowings are analysed as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount of land use right *(Note 14)*	–	–	4,000	4,000

(f) The Group has the following undrawn borrowing facilities at the respective balance sheet dates:

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Floating rate and expiring within one year	10,000	50,000	80,000	234,000

27. LONG-TERM PAYABLES

Long term payables mainly represent retirement benefits and early retirement allowance payable to the employees of Xi'an Lijun Pharmaceutical Co., Ltd.

The maturity profile of the long-term payable is as follows:

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	993	1,013	903	846
Between 1 to 2 year	1,013	898	832	768
Between 2 to 5 years	2,472	2,286	2,123	2,019
More than 5 years	8,324	12,690	12,387	12,252
	12,802	16,887	16,245	15,885
Less: Current portion included in current liabilities	(993)	(1,013)	(903)	(846)
	11,809	15,874	15,342	15,039

28. SHARE CAPITAL

Share capital represents the 10,000 shares with par value of HK$0.10 per share issued to the shareholders of the Company on 28 December 2004.

29. OTHER RESERVES

	Merger reserve *(note a)* *RMB'000*	Capital surplus *RMB'000*	Statutory reserves *(note b)* *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2002	168,720	32	13,048	22,349	204,149
Profit for the year	–	–	–	60,819	60,819
Transfer to statutory reserves	–	–	9,056	(9,056)	–
Dividends	–	–	–	(42,180)	(42,180)
At 31 December 2002	168,720	32	22,104	31,932	222,788
Profit for the year	–	–	–	70,333	70,333
Transfer to statutory reserves	–	–	10,550	(10,550)	–
Dividends	–	–	–	(50,616)	(50,616)
At 31 December 2003	168,720	32	32,654	41,099	242,505
Profit for the year	–	–	–	88,632	88,632
Transfer to statutory reserves	–	–	13,295	(13,295)	–
Dividends	–	–	–	(71,819)	(71,819)
At 31 December 2004	168,720	32	45,949	44,617	259,318
Profit for the period	–	–	–	37,556	37,556
Dividends	–	–	–	(3,374)	(3,374)
At 30 June 2005	168,720	32	45,949	78,799	293,500
At 31 December 2003	168,720	32	32,654	41,099	242,505
Profit for the period (unaudited)	–	–	–	44,498	44,498
At 30 June 2004 (unaudited)	168,720	32	32,654	85,597	287,003

(a) Merger reserve

Merger reserve of the Company represents the difference between the Company's 80% share in paid-up capital of Xi'an Lijun Pharmaceutical Co., Ltd. and the nominal value of the share capital issued by the Company upon the Reorganisation.

(b) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the Group's subsidiaries established in the PRC, each of the Group's subsidiaries is required to set aside 10% of its statutory net profit for the year after offsetting any prior years' accumulative losses as determined under the PRC accounting regulations to the statutory surplus reserve fund before distributing their net profit. When the balance of such reserve reaches 50% of each PRC subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the PRC subsidiary's share capital after such issuance.

In addition, each of the PRC subsidiaries is required to set aside 5% to 10% of its statutory net profit for the year to the statutory public welfare fund. The statutory public welfare fund is to be utilised to build or acquire capital items for the subsidiary's employees and cannot be used to pay off staff welfare expenses.

30. CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before income tax to net cash inflow generated from operations

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before income tax	116,517	102,790	131,392	67,824	58,493
Share of results of an associated company	–	265	–	–	–
Provision for impairment of receivables	4,380	6,464	1,404	704	992
(Reversal of)/inventory write-down	(3,125)	544	(4,556)	(3,734)	(1,015)
Impairment losses of property, plant and equipment	1,036	5,336	865	865	–
Depreciation of property, plant and equipment	23,615	32,523	36,398	18,194	17,671
Loss on disposals of property, plant and equipment	83	458	80	–	–
Amortisation of land use right	69	101	133	64	64
Amortisation of goodwill	–	75	75	37	–
Interest income	(1,160)	(1,549)	(1,735)	(1,185)	(431)
Interest expense	1,507	3,933	7,111	2,944	4,744
Professional fees	–	–	2,108	1,004	1,636
Operating profit before working capital changes	142,922	150,940	173,275	86,717	82,154
(Increase)/decrease in inventories	(6,901)	(7,856)	16,058	(1,039)	(7,725)
Increase in trade and bills receivables	(4,619)	(28,571)	(99,464)	(44,969)	(11,241)
Decrease/(increase) in prepayments, deposits and other receivables	28,121	(8,280)	(22,119)	(4,664)	20,457
(Increase)/decrease in amounts due from related parties	(1,638)	377	3,299	3,026	251
Increase in trade and bills payables and deposits and advances receipts from customers	1,100	10,519	16,495	9,903	3,643
(Decrease)/increase in taxation payable, accruals, and other payables	(37,960)	14,643	(27,733)	(36,265)	(50,803)
Decrease in amounts due to related parties	(11,865)	(4,969)	(3,052)	(2,901)	(3,214)
Net cash inflow generated from operations	109,160	126,803	56,759	9,808	33,522

(b) Analysis of changes in financing during the Relevant Periods

	Bank loans
	RMB'000
At 1 January 2002	24,000
Cash inflow from financing	30,000
Cash outflow from financing	(4,000)
At 31 December 2002	50,000
Cash inflow from financing	60,000
Cash outflow from financing	(30,000)
At 31 December 2003	80,000
Cash inflow from financing	157,000
Cash outflow from financing	(100,000)
At 31 December 2004	137,000
Cash inflow from financing	30,000
Cash outflow from financing	(62,000)
At 30 June 2005	105,000
At 31 December 2003	80,000
Cash inflow from financing	82,000
Cash outflow from financing	(60,000)
At 30 June 2004	102,000

(c) Acquisition of a subsidiary

In July 2003, the Group acquired 51% equity interest in Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. at a consideration of RMB6,650,000. The carrying amounts of the acquired assets and liabilities approximately equal to their fair value as follows:

	RMB'000
Net assets acquired	
Property, plant and equipment *(Note 13)*	3,226
Land use rights *(Note 14)*	3,030
Inventories	3,586
Other current assets	1,165
Bank and cash balances	10,712
Long-term payables	(4,000)
Trade and bills payables	(900)
Deposits and advance receipts from customers	(148)
Accruals and other payables	(5,105)
	11,566
Minority interest	(5,667)
Goodwill	751
Cash consideration	6,650
Less: Bank and cash balances acquired	10,712
Net cash inflow arising from the acquisition of a subsidiary	4,062

The loss of Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. for the six months ended 31 December 2003 including in the profit and loss accounts of the Group was approximately RMB113,000. The sales and net loss of Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. for the year 2003 was approximately RMB7,075,000 and RMB2,000 respectively.

(d) Disposal of an associated company

On 24 December 2004, the Group disposed its entire 30% equity interest in Xi'an Rejoy Real Estate Co., Ltd. (Note 15) to Xi'an Rejoy Technology Investment Co., Ltd. for a consideration of RMB2,400,000 and recognised a gain on disposal of RMB265,000.

(e) Proceeds from disposal of property, plant and equipment

	Year ended 31 December			**Six months ended 30 June**	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net book amount *(Note 13)*	83	1,384	1,711	259	–
Loss on sale of property, plant and equipment	(83)	(458)	(80)	–	–
Proceeds from sale of property, plant and equipment	–	926	1,631	259	–

31. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) During the Relevant Periods, the directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group Limited Liability Company ("Rejoy Group")	Shareholder of the Xi'an Lijun Pharmaceutical Co., Ltd.
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Shareholder of the Xi'an Lijun Pharmaceutical Co., Ltd. before 28 December 2004
Shaanxi Xi'an Pharmaceutical Factory	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	Subsidiary of Rejoy Technology
Liaoning Huabang Pharmaceutical Co., Ltd. ("Huabang Pharmaceutical")	Shareholder of the Xi'an Lijun Pharmaceutical Co., Ltd.
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Rejoy Group Zhenjiang Pharmaceutical Co., Ltd. ("Zhenjiang Pharmaceutical")	Subsidiary of Rejoy Group

Name	Relationship
Xiyao Construction and Installation Co., Ltd. ("Xiyao Construction")	Joint Venture of Shaanxi Xi'an Pharmaceutical Factory after March 2005 (wholly-owned subsidiary of Shaanxi Xi'an Pharmaceutical Factory before March 2005)
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	Subsidiary of Rejoy Technology after November 2004 (Joint venture of Xi'an Lijun Pharmaceutical Co., Ltd. before November 2004)
Global Printing Co., Ltd. ("Global Printing")	Controlled by the same ultimate parent company of Rejoy Group

(b) Except for the disposal of investment in an associated company as disclosed in Note 30(d) of this section, during the Relevant Periods, the Group had the following significant transactions with related parties:

Nature of transactions	Names of related party	Year ended 31 December 2002 RMB'000	2003 RMB'000	2004 RMB'000	Six months ended 30 June 2004 RMB'000 (Unaudited)	2005 RMB'000
Continuing:						
Purchasing of raw materials and packaging materials	Zhenjiang Pharmaceutical	36,816	31,096	11,900	11,467	5,143
	Rejoy Baichuan	133	2,113	6,816	160	60
	Rejoy Packaging	728	538	674	330	496
	Global Printing	8,578	9,243	6,854	3,411	4,057
		46,255	42,990	26,244	15,368	9,756
Sales of finished goods	Rejoy Medicine	11,052	14,291	26,663	17,244	8,403
	Rejoy Baichuan	58	410	27,079	1,611	5,250
	Huabang Pharmaceutical	29,834	19,453	5,953	4,094	3,369
		40,944	34,154	59,695	22,949	17,022
Provision of utilities from	Shaanxi Xi'an Pharmaceutical Factory	39,535	45,891	41,603	22,890	23,217
Sharing of administrative costs from	Shaanxi Xi'an Pharmaceutical Factory	15,831	13,431	13,105	5,383	6,341
Lease of land use rights from	Rejoy Group	6,826	6,826	6,826	3,448	2,730
Lease of office premises to	Rejoy Group	200	200	200	100	100
Discontinuing:						
Provision of assets management services by	Shaanxi Xi'an Pharmaceutical Factory	280	280	280	140	–
Provision of building construction services by	Xiyao Construction	12,881	6,851	7,403	3,639	1,650
Disposal of property, plant and equipment	Rejoy Group	–	–	946	–	–
	Shaanxi Xi'an Pharmaceutical Factory	–	–	165	–	–
		–	–	1,111	–	–
Guarantee:						
Guarantee of loans by a related party	Rejoy Group	20,000	50,000	62,000	30,000	10,000
Guarantee to an associated company	Rejoy Real Estate	–	40,000	–	–	–

(c) The Group had the following significant balances with related parties.

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from related parties included in trade receivables				
– Rejoy Medicine	79	560	16,900	14,884
– Rejoy Baichuan	–	–	17,712	7,785
– Huabang Pharmaceutical	–	–	1,128	1,934
– Shaanxi Xi'an Pharmaceutical Factory	–	–	17	–
	79	560	35,757	24,603
Amount due from related parties				
– Rejoy Medicine	1,500	500	–	–
– Rejoy Real Estate	–	25,600	320	–
– Rejoy Group	55,986	18,342	–	2
– Rejoy Technology	1,243	1,256	99	–
– Shaanxi Xi'an Pharmaceutical Factory	802	1,220	223	216
– Xiyao Construction	36	797	147	–
	59,567	47,715	789	218
Amount due to related parties included in trade payables				
– Zhenjiang Pharmaceutical	61	849	200	4
– Rejoy Baichuan	–	–	45	12
– Rejoy Packaging	–	–	–	249
– Global printing	780	1,575	1,733	2,283
	841	2,424	1,978	2,548
Amount due to related parties				
– Rejoy Group	564	(5)	–	–
– Shaanxi Xi'an Pharmaceutical Factory	9,300	5,605	3,217	–
– Xiyao Construction	1,393	688	19	22
	11,257	6,288	3,236	22
Amount due to shareholders				
– Dividend payable	52,725	32,685	24,743	8,461
– Shareholders' loan*	–	–	47,594	47,594
	52,725	32,685	72,337	56,055

* *According to the resolution of the Board of Directors' meeting held on December 2004, the shareholders of Xi'an Lijun Pharmaceutical Co., Ltd. agreed to receive the dividend amounting to RMB47,594,000 declared in 2004 after December 2006, which was deemed as the shareholders' loan.*

Except for the shareholders' loan as stated above, these related party balances are all unsecured, interest-free and have no pre-determined term of repayment.

Up to the date of this report, the amount due to Xiyao Construction, the dividend payable to shareholders and shareholders' loan have been settled.

32. COMMITMENTS

(a) Capital commitments

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment – Contracted but not provided for	63,081	18,854	25,203	4,823

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of office premises in the PRC and Hong Kong under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than one year	6,826	6,826	5,461	6,668
Later than one year and not later than five years	25,624	18,798	13,337	10,007
	32,450	25,624	18,798	16,675

33. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2005.

34. SUBSEQUENT EVENTS

The following significant event took place subsequent to 30 June 2005 and up to the date of this report.

In August 2004, the Group disposed a building and a land use right of Shanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. with carrying amount of RMB4,410,000 for RMB5,290,000 to third parties and in this connection recognised a net gain of approximately RMB412,000.

III. FINANCIAL INFORMATION ABOUT THE COMPANY

Balance Sheet - the Company:

	Notes	As at 31 December 2004 RMB'000	As at 30 June 2005 RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary	1	152,040	152,040
Current assets			
Bank and cash balances		1	1
Total assets		152,041	152,041
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital	2	1	1
Capital surplus	3	152,040	152,040
Total equity		152,041	152,041
LIABILITIES			
Current liabilities			
Accruals and other payables		–	–
Total liabilities		–	–
Total equity and liabilities		152,041	152,041

1. INVESTMENT IN A SUBSIDIARY

Investment in a subsidiary represents equity interests in Xi'an Lijun Pharmaceutical Co., Ltd., held by the Company as a result of the Reorganisation.

2. SHARE CAPITAL

The share capital represents 10,000 shares with par value HK$0.10 per share issued to the shareholders of the Company on 28 December 2004.

3. CAPITAL SURPLUS

The respective shareholders of the Company waived a loan of approximately RMB152,040,000 to the Company on 28 December 2004, which was accounted for as capital surplus of the Company.

4. DISTRIBUTABLE RESERVE

There is no distributable reserve of the Company as at 30 June 2005.

IV. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2005. In addition, no dividend or distribution has been declared or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2005.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the accountants' report of the Company prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the accountants' report of the Company set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

In accordance with Rule 4.29 of the Listing Rules, the unaudited pro forma financial information has been prepared to illustrate the effect of the Share Offer on the net tangible assets of the Group as at 30 June 2005 as if it had taken place on 30 June 2005 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer). This statement of unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group.

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 30 June 2005, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Net assets of the Group attributable to the equity holders of the Company as at 30 June 2005	Less: goodwill on acquisition of a subsidiary less amortisation as at 30 June 2005	Audited consolidated net tangible assets of the Group as at 30 June 2005	Audited consolidated net tangible assets of the Group as at 30 June 2005	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group	Unaudited pro forma adjusted consolidated net tangible assets per Share
	RMB'000	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000*	*HK$* *(Note 2)*
Based on the Offer Price of HK$1.98 per Share	293,501	601	292,900	281,635	115,600	397,235	1.42
Based on the Offer Price of HK$2.20 per Share	293,501	601	292,900	281,635	131,000	412,635	1.47

Notes:

1. The estimated net proceeds from the Share Offer are based on the respective Offer Price of HK$1.98 or HK$2.20 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of Over-allotment Option. If the Over-allotment Option is exercised in full, the unaudited pro forma adjusted net tangible asset value per Share will be increased correspondingly.

2. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment of goodwill and on the basis that a total of 280,000,000 Shares in issue as at 30 June 2005 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer but without taking account for any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

3. The amount in RMB is converted to HK$ with the exchange rate at HK$1.00 to RMB1.04.

4. The buildings of the Group were revalued at 31 October 2005. The revaluation surplus, representing the excess of market value of the buildings over their book value, amounted to approximately RMB5,901,250 and will not be included in the Group's accounts for the year ending 31 December 2005. In accordance with the Group's accounting policy, all buildings are stated at cost less accumulated depreciation and accumulated impairment losses, if any. As such, the revaluation surplus arising from the valuation of buildings has not been included in the above unaudited pro forma adjusted net tangible assets statement. Had the buildings been stated at such valuation, an additional depreciation of RMB186,873 per annum would have been incurred.

B. UNAUDITED PRO FORMA EARNINGS PER SHARE

The following is an illustrative statement of unaudited pro forma earnings per Share of the Group for the year ended 31 December 2004 which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer and Capitalisation Issue as if it had been taken place on 1 January 2004. Because of the nature of this illustrative statement, it may not give a true picture of the earnings per Share of the Group:

Audited profit attributable to equity holders for the year ended 31 December 2004, as shown in the accountants' report set out in Appendix I to this prospectus	RMB88,632,000
Number of Shares in issue and issuable as at 1 January 2004 *(Note 1)*	210,000,000
Shares to be issued under the Share Offer	70,000,000
Adjusted number of Shares in issue after completion of the Share Offer	280,000,000
Unaudited pro forma earnings per Share *(Note 2)*	RMB0.3165
	HK$0.3043

Notes:

1. In determining the number of shares in issue and issuable as at 1 January 2004, the 10,000 Shares in issue as at the date of this prospectus and 209,990,000 Shares to be issued pursuant to the Capitalisation Issue as described in the paragraph headed "Changes in share capital of the Company" in Appendix V to this prospectus was deemed to have occurred on 1 January 2004.

2. The calculation of the unaudited pro forma earnings per Share is based on audited profit attributable to equity holders for the year ended 31 December 2004 and on the basis of a total of 280,000,000 Shares in issue and to be issued immediately following the completion of the Share Offer as if the Share Offer had taken place on 1 January 2004.

3. The amount in RMB is converted to HK$ with the exchange rate at HK$1.00 to RMB1.04.

C. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

2 December 2005

The Directors
Lijun International Pharmaceutical (Holding) Co., Ltd.

Dear Sirs,

We report on the unaudited pro forma financial information of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 271 to 273 under the headings of "Unaudited pro forma adjusted net tangible assets" and "Unaudited pro forma earnings per share" in Part A and Part B of Appendix II ("the unaudited pro forma financial information") of the Company's prospectus dated 2 December 2005 in connection with the placing and public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the placing and public offering might have affected the relevant financial information of the Group.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 271 to 273 of the Company's prospectus dated 2 December 2005 for illustrative purpose only and, because of its nature, it may not be indicative of:

– the financial position of the Group at any future date, or

– the earnings per share of the Group for any future periods.

OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 October 2005 of the property interests of the Group.

Sallmanns
西門
Corporate valuation and consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

2 December 2005

The Board of Directors
Lijun International Pharmaceutical (Holding) Co., Ltd.

Dear Sirs,

In accordance with your instructions to value the properties in which Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 October 2005 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests in property nos. 4, 5 and 8 in Group I by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests in property nos. 1, 2, 3, 6 and 7 in Group I and Group III have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the property interest in Group II which is currently under construction, we have assumed that it will be developed and completed in accordance with the Group's latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the valuation date and the remainder of the costs and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group IV and Group V, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal advisers – Haiwen & Partners, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 22 years' experience in the valuation of properties in the PRC and 25 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 October 2005 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2005 *RMB*
1.	A portion of a parcel of land and various buildings located at West Area No. 151 Hancheng Nan Road Lianhu District Xi'an Shaanxi Province The PRC	8,311,000	80%	6,649,000
2.	Portions of 2 parcels of land, various buildings and structures located at East Area No. 151 Hancheng Nan Road Lianhu District Xi'an Shaanxi Province The PRC	129,750,000	80%	103,800,000
3.	A parcel of land, a storehouse and various structures located at Hongguang Road Wangsi Town Chang'an District Xi'an Shaanxi Province The PRC	1,027,000	80%	822,000
4.	Room 906 of Block 2 Yard 9 Nongzhanguan Nan Road Chaoyang District Beijing The PRC	2,845,000	80%	2,276,000

No.	Property	Capital value in existing state as at 31 October 2005 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2005 *RMB*
5.	Room 212 of Block 34 Shuaifu Yuan Residential Area Tongzhou District Beijing The PRC	436,000	80%	349,000
6.	A parcel of land, various buildings and structures located at the northern side of Dongfeng Avenue Weinan Shaanxi Province The PRC	30,075,000	40.8%	12,271,000
7.	A car park, a commercial building and a vacant land located at the eastern side of Weiyang Road Economic and Technology Development Zone Xi'an Shaanxi Province The PRC	3,666,000	80%	2,933,000
8.	A duplex unit of Block 3 Taibei Garden located at the junction of Huanghe Road and Guangkai Xin Street Nankai District Tianjin The PRC	No commercial value	80%	No commercial value
		Sub-total:		129,100,000

Group II – Property interest held by the Group under development in the PRC

No.	Property	Capital value in existing state as at 31 October 2005 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2005 *RMB*
9.	A parcel of land and a storehouse under construction located at Chenjiazhai Village Lianhu District Xi'an Shaanxi Province The PRC	No commercial value	80%	No commercial value
		Sub-total:		Nil

Group III – Property interest contracted to be transferred by the Group in the PRC

No.	Property	Capital value in existing state as at 31 October 2005 *RMB*	Interest attributable to the Group	Capital value attributable to to the Group as at 31 October 2005 *RMB*
10.	A parcel of land and various buildings No.11 Xi Nanjing Road Weinan Shaanxi Province The PRC	No commercial value	40.8%	No commercial value
		Sub-total:		Nil

Group IV – Property interests rented and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 October 2005 *RMB*
11.	2 commercial units No. 226 Sanqiao Road Sanqiao Town Xi'an Shaanxi Province The PRC	No commercial value
12.	7 office units and 3 commercial units No. 66 Wanshou Bei Road Xi'an Shaanxi Province The PRC	No commercial value
13.	A storage unit Jiushi Road Xi'an Shaanxi Province The PRC	No commercial value
14.	6 commercial units located at the middle section of Hancheng Road Lianhu District Xi'an Shaanxi Province The PRC	No commercial value
15.	Unit 2501 of Block A Hanguang Jiayuan South Section, Gaoxin Road Xi'an Shaanxi Province The PRC	No commercial value
	Sub-total:	Nil

Group V – Property interest rented and occupied by the Group in Hong Kong

No.	Property		Capital value in existing state as at 31 October 2005 *RMB*
16.	Unit 1606 on the 16th floor of Office Tower Convention Plaza No.1 Harbour Road Wan Chai Hong Kong		No commercial value
		Sub-total:	Nil
		Total:	129,100,000

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
1.	A portion of a parcel of land and various buildings located at West Area No. 151 Hancheng Nan Road Lianhu District Xi'an Shaanxi Province The PRC	The property comprises a portion of a parcel of land with a site area of approximately 20,609.60 sq.m. on which are erected 27 buildings completed in various stages between 1960 and 1995. The buildings have a total gross floor area of approximately 17,150.73 sq.m. The buildings include workshops, storehouses, office buildings, distribution rooms, etc. The land use rights of the property are leased to the Group for a term expiring on 31 December 2007 for operation, office and other legal purposes.	The property is currently occupied by the Group for production and ancillary office purposes.	8,311,000 (80% interest attributable to the Group: RMB6,649,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Xi Lian Guo Yong (2001) Di No. 676, the land use rights of a parcel of land with a site area of approximately 36,074.10 sq.m. have been granted to Rejoy Group Limited Liability Company ("Rejoy Group"), a shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun"), for a term expiring on 7 March 2049 for industrial use.

2. Pursuant to a Land Use Rights Tenancy Agreement entered into between Xi'an Lijun and Rejoy Group dated 16 October 2005, a portion of the land stated in note 1 with a site area of approximately 20,609.6 sq.m. is rented to Xi'an Lijun for operation, office and other legal purposes for a term commencing from 1 July 2005 and expiring on 31 December 2007 at a monthly rental of RMB4 per sq.m.

   Pursuant to the Land Use Rights Tenancy Agreement, Rejoy Group has undertaken to support Xi'an Lijun with its business and development that:–

   (i) Rejoy Group undertakes not to transfer the whole or part of the land use rights so long as the land use rights are leased to the Group;

   (ii) Rejoy Group grants the Group the priority to renew the relevant land use rights tenancy agreements upon their expiry if the Group offers the same terms with any other third parties;

   (iii) Rejoy Group grants the Group the priority to purchase such land use rights if the Group offers the same terms with any other third parties; and

(iv) Rejoy Group will agree to dispose of the relevant leased land to the same party by the same means in case if Xi'an Lijun transfers, leases, mortgages or otherwise disposes of the buildings to third parties during the lease term.

3. Pursuant to 6 Building Ownership Certificates – Xi'an Shi Fang Quan Zheng Lianhu Qu Zi Di Nos. 1025108015-2-2-10~1, 1025108015-2-2-22~1, 1025108015-2-2-28~1, 1025108015-2-2-38~1, 1025108015-2-2-5~1 and 1025108015-2-2-43~1, 27 buildings of the property with a total gross floor area of approximately 17,150.73 sq.m. are owned by Xi'an Lijun.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of the property are legally owned by the Group and can be transferred, sublet and mortgaged by the Group;

   (ii) The Land Use Rights Tenancy Agreement is valid, binding and enforceable under the relevant PRC laws and the Group can legally occupy and use the land use rights of the property; and

   (iii) The property is not subject to mortgage or any other encumbrances.

5. In the course of our valuation, we have attributed commercial value to the 27 buildings but attributed no commercial value to the land as the land use rights of the property are leased to the Group.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
2.	Portions of 2 parcels of land, various buildings and structures located at East Area No. 151 Hancheng Nan Road Lianhu District Xi'an Shaanxi Province The PRC	The property comprises portions of 2 parcels of land with a total site area of approximately 80,615.67 sq.m. on which are erected 80 buildings and other ancillary structures completed in various stages between 1950 and 2005. The buildings have a total gross floor area of approximately 74,382.02 sq.m. The buildings include workshops, office buildings, distribution rooms, warehouses etc. The structures mainly include roads, walls, sheds and some production processing ponds. The land use rights of the property are leased to the Group for a term expiring on 31 December 2007 for operation, office and other legal purposes.	The property is currently occupied by the Group for production and ancillary office purposes except for a portion of the property which is rented to a shareholder of Xi'an Lijun. (See Note 5)	129,750,000 (80% interest attributable to the Group: RMB103,800,000)

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates – Xi Lian Guo Yong (2001) Di No. 638 and Xi Lian Guo Yong (2001) Chu Zi Di No. 919, the land use rights of 2 parcels of land with a total site area of approximately 131,639.9 sq.m. have been granted to Rejoy Group Limited Liability Company ("Rejoy Group"), a shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun"), for terms expiring on 7 March 2049 and 11 December 2045, respectively, for industrial use.

2. Pursuant to a Land Use Rights Tenancy Agreement entered into between Rejoy Group and Xi'an Lijun, dated 16 October 2005, portions of 2 parcels of land stated in note 1 with a total site area of approximately 80,615.67 sq.m. is rented to Xi'an Lijun for operation, office and other legal purposes for a term commencing from 1 July 2005 and expiring on 31 December 2007 at a monthly rental of RMB4 per sq.m.

   Pursuant to the Land Use Rights Tenancy Agreement, Rejoy Group has undertaken to support Xi'an Lijun with its business and development that:–

   (i) Rejoy Group undertakes not to transfer the whole or part of the land use rights so long as the land use rights are leased to the Group;

   (ii) Rejoy Group grants the Group the priority to renew the relevant land use rights tenancy agreements upon their expiry if the Group offers the same terms with any other third parties;

(iii) Rejoy Group grants the Group the priority to purchase such land use rights if the Group offers the same terms with any other third parties; and

(iv) Rejoy Group will agree to dispose of the relevant leased land to the same party by the same means in case if Xi'an Lijun transfers, leases, mortgages or otherwise disposes of the buildings to third parties during the lease term.

3. Pursuant to 19 Building Ownership Certificates – Xi'an Shi Fang Quan Zheng Lianhu Qu Zi Di Nos. 1050108011-13-5~1, 1050108011-13-10~1, 1050108011-13-26~1, 1050108011-13-31~1, 1050108011-13-153~1, 1050108011-13-113~1, 1050108011-13-41~1, 1050108011-13-118~1, 1050108011-13-36~1, 1050108011-13-47~1, 1050108011-13-56~1, 1050108011-13-61~1, 1050108011-13-66~1, 1050108011-13-77~1, 1050108011-13-87~1, 1050108011-13-89~1, 1050108011-13-94~1, 1050108011-13-99~1 and 1050108011-13-129~1, 92 blocks (comprising 90 buildings) with a total gross floor area of approximately 68,134.16 sq.m. are owned by Xi'an Lijun.

   As confirmed by Xi'an Lijun, 14 blocks recorded on the above Building Ownership Certificates with a total gross floor area of approximately 6,816.76 sq.m. have been demolished at the date of valuation.

   Pursuant to a Building Ownership Certificate-Xi'an Shi Fang Quan Zheng Lianhu Qu Zi Di No. 1050108011-13-156, 2 blocks (comprising 3 buildings) with a total gross floor area of approximately 12,764.62 sq.m. are owned by Xi'an Lijun Pharmaceutical Stock Co., Ltd, the predecessor of Xi'an Lijun.

4. For the remaining building with a gross floor area of approximately 300 sq.m., we have not been provided with any title documents.

5. Pursuant to a Building Tenancy Agreement entered into between Xi'an Lijun and Rejoy Group dated 16 October 2005, Level 4 of an office building with a total gross area of approximately 1,178 sq.m. is rented to Rejoy Group for a term of 3 years commencing from 1 January 2005 and expiring on 31 December 2007 at an annual rental of RMB200,000, inclusive of water, electricity and communication charges.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of the 79 buildings with title certificates of the property are legally owned by the Group and can be transferred, sublet and mortgaged by the Group;

   (ii) For the Building Ownership Certificate-Xi'an Shi Fang Quan Zheng Lianhu Qu Zi Di No. 1050108011-13-156, there is no material legal impediment to obtain Building Ownership Certificate under the name of Xi'an Lijun;

   (iii) The Land Use Rights Tenancy Agreement is valid, binding and enforceable under the relevant PRC laws and the Group can legally occupy and use the land use rights of the property; and

   (iv) The property is not subject to mortgage or any other encumbrances.

7. In the valuation of this property, we have not attributed any commercial value to the remaining building with a gross floor area of approximately 300 sq.m because it has not any proper title documents. However, for reference purposes, we are of the opinion that the capital value of the building (excluding the land) as at the date of valuation would be RMB288,000 assuming all relevant title documents have been obtained.

8. In the course of our valuation, we have attributed commercial value to the 79 buildings with title certificates and structures but attributed no commercial value to the land as the land use rights of the property are leased to the Group.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
3.	A parcel of land, a storehouse and various structures located at Hongguang Road Wangsi Town Chang'an District Xi'an Shaanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 12,542.73 sq.m. on which are erected a single-storey storehouse and other ancillary structures completed in about 2002. The storehouse has a gross floor area of approximately 76.17 sq.m. The structures mainly include roads, walls, sheds, a fire fighting pond. The land use rights of the property are leased for a term expiring on 31 December 2007 for operation, office and other legal purposes.	The property is currently occupied by the Group for storage purposes.	1,027,000 (80% interest attributable to the Group: RMB822,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Chang'an Guo Yong (2001) Zi Di No. 113, the land use rights of a parcel of land with a site area of approximately 12,542.73 sq.m. have been granted to Rejoy Group Limited Liability Company ("Rejoy Group"), a shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun"), for a term expiring on 7 March 2049 for storage use.

2. Pursuant to a Land Use Rights Tenancy Agreement entered into between Xi'an Lijun and Rejoy Group dated 16 October 2005, a parcel of land with a site area of approximately 12,542.73 sq.m. is rented to Xi'an Lijun for operation, office and other legal purposes for a term commencing from 1 July 2005 and expiring on 31 December 2007 at a monthly rental of RMB4 per sq.m.

   Pursuant to Land Use Rights the Tenancy Agreement, Rejoy Group has undertaken to support Xi'an Lijun with its business and development that:–

   (i) Rejoy Group undertakes not to transfer the whole or part of the land use rights so long as the land use rights are leased to the Group;

   (ii) Rejoy Group grants the Group the priority to renew the relevant land use rights tenancy agreements upon their expiry if the Group offers the same terms with any other third parties;

   (iii) Rejoy Group grants the Group the priority to purchase such land use rights if the Group offers the same terms with any other third parties; and

(iv) Rejoy Group will agree to dispose of the relevant leased land to the same party by the same means in case if Xi'an Lijun transfers, leases, mortgages or otherwise disposes of the buildings to third parties during the lease term.

3. Pursuant to a Building Ownership Certificate – Xi'an Shi Fang Quan Zheng Chang'an Qu Zi Di No. 14-0058, a building with a gross floor area of approximately 76.17 sq.m. is owned by Xi'an Lijun.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of the property are legally owned by the Group and can be transferred, sublet and mortgaged by the Group;

   (ii) The Land Use Rights Tenancy Agreement is valid, binding and enforceable under the relevant PRC laws and the Group can legally occupy and use the land use rights of the property; and

   (iii) The property is not subject to mortgage or any other encumbrances.

5. In the course of our valuation, we have attributed commercial value to the storehouse and the structures but attributed no commercial value to the land as the land use rights of the property are leased to the Group.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
4.	Room 906 of Block 2 Yard 9 Nongzhanguan Nan Road Chaoyang District Beijing The PRC	The property comprises a unit on Level 8 of a 28-storey composite building completed in about 2003. The property has a gross floor area of approximately 229.42 sq.m.	The property is currently occupied by the Group for residential and office purposes.	2,845,000 (80% interest attributable to the Group: RMB2,276,000)

Notes:

1. Pursuant to a Sale and Purchase Contract entered into between Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") (an 80% owned subsidiary of the Group) and Beijing Shiji Jinghua Real Estate Development Company Limited (北京世紀京華房地產開發有限公司) (the "Vendor") dated on 27 March 2003, the Vendor agreed to sell the property with a gross floor area of approximately 229.42 sq.m. to Lijun Stock at a consideration of RMB2,121,447.

2. Pursuant to a Building Ownership Certificate – Jing Fang Quan Zheng Chao Gu 04 Zi Di No. 00111, the property with a gross floor area of approximately 229.42 sq.m. is owned by Lijun Stock.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of the property are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group;

   (ii) There is no material legal impediment to obtain Building Ownership Certificate under the name of Xi'an Lijun; and

   (iii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
5.	Room 212 of Block 34 Shuaifu Yuan Residential Area Tongzhou District Beijing The PRC	The property comprises a unit on Level 1 of a 4-storey composite building completed in about 2000. The property has a gross floor area of approximately 136.36 sq.m.	The property is currently occupied by the Group for residential and office purposes.	436,000 (80% interest attributable to the Group: RMB349,000)

Notes:

1. Pursuant to a Building Ownership Certificate – Jing Fang Quan Zheng Tong She Zi Di No. 0506138, the property with a gross floor area of approximately 136.36 sq.m. is owned by Xi'an Lijun Pharmaceutical Co., Ltd., an 80% owned subsidiary of the Group.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of the property are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
6.	A parcel of land, various buildings and structures located at the northern side of Dongfeng Avenue Weinan Shaanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 53,333.6 sq.m. on which are erected 9 buildings and 7 ancillary structures completed in 2004. The buildings have a total gross floor area of approximately 8,320.11 sq.m. The buildings and structures include 2 workshops, a boiler room, a distribution room, 2 gatehouses, roads, park, walls, gates, cisterns, lawn, etc. The land use rights of the property have been granted for a term expiring on 14 July 2053 for industrial use.	The property is currently occupied by the Group for production and office purposes.	30,075,000 (40.8% interest attributable to the Group: RMB12,271,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Wei Gao Tu Fa Guo Yong (2004) Zi Di No. 05, the land use rights of a parcel of land with a site area of approximately 53,333.6 sq.m. have been granted to Shaanxi Lijun Heng Xin Tang Pharmaceutical Co., Ltd. ("Heng Xin Tang") (a 51% owned subsidiary of Xi'an Lijun Pharmaceutical Co., Ltd.), for a term expiring on 14 July 2053 for industrial use.

2. Pursuant to a State-owned Land Use Rights Grant Contract dated 15 July 2003 entered into between Heng Xin Tang and Shaanxi Province Weinan Hi-Tech Development Zone Planning Land Bureau (陝西省渭南市高新區規劃土地局), the land use rights of a parcel of land with a site area of approximately 53,333.6 sq.m. are contracted to be granted to Heng Xin Tang for industrial use. The land premium is RMB2,000,000.

3. Pursuant to 2 Building Ownership Certificates – Wei Fang Quan Zheng Deng You Zi Di Nos. 230139 and 230140, the buildings of the property with a total gross floor area of approximately 8,320.11 sq.m. are owned by Heng Xing Tang.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of the property are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group without additional payment of any land premium;

   (ii) The building ownership rights of the property are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group; and

   (iii) A portion of the parcel of land with a site area of approximately 26,522.5 sq.m. is subject to a mortgage for a loan of RMB5,000,000 in favour of Linweiqu Subbranch Weinan Branch of Agricultural Bank of China for a term from 30 July 2004 to 29 July 2006.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
7.	A car park, a commercial building and a vacant land located at the eastern side of Weiyang Road Economic and Technology Development Zone Xi'an Shaanxi Province The PRC	The property comprises 2 portions (Portion A and Portion B) situated in 2 parcels of land with a total site area of approximately 21,265.6 sq.m. **Portion A:** Portion A comprises an underground car park with 80 car parking spaces and a single-storey commercial building completed in May 2005. Portion A has a total gross floor area of approximately 4,360 sq.m. Portion A is situated in a parcel of land with a site are of approximately 15,114.6 sq.m., on which are constructed another 4 high-rise residential buildings with a total gross floor area of approximately 53,684 sq.m. The car park is underneath the 4 residential buildings. As confirmed by Xi'an Lijun, the 4 residential buildings are owned and occupied by the employees of the Group. Hence we have excluded them from our valuation.	Portion A is currently occupied by the Group for car parking and commercial purposes. Portion B is currently vacant.	3,666,000 (80% interest attributable to the Group: RMB2,933,000)

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
		Portion B: Portion B is a parcel of vacant land with a site area of approximately 6,151 sq.m., on which some site clearance work has been made. The Group plans to develop a 24-storey composite building with an estimated total gross floor area of approximately 31,695 sq.m. The land use rights of property have been granted for a term expiring in January 2050 for multiple uses.		

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Xi Jing Guo Yong (2004 Chu Zi) Di No. 62, the land use rights of Portion A with a site area of approximately 15,114.60 sq.m. have been granted to Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") (an 80% owned subsidiary of the Group), for a term expiring in January 2050 for multiple uses.

   Pursuant to a State-owned Land Use Rights Certificate – Xi Jing Guo Yong (2004 Chu Zi) Di No. 63, the land use rights of Portion B with a site area of approximately 6,151 sq.m. have been granted to Xi'an Lijun, for a term expiring on January 2050 for multiple uses.

2. In the valuation of the property, we have attributed no commercial value to Portion A because the Group has not obtained the relevant title documents.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of Portion B are legally owned by the Group and can be freely transferred, sublet, mortgaged or handled by the Group without additional payment of any land premium;

   (ii) The Group can legally transfer, lease or mortgage Portion A upon obtaining the Building Ownership Certificates;

   (iii) There is no material legal impediment to obtain State-owned Land Use Rights Certificates of Portion A under the name of Xi'an Lijun; and

   (iv) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
8.	A duplex unit of Block 3 Taibei Garden located at the junction of Huanghe Road and Guangkai Xin Street Nankai District Tianjin The PRC	The property comprises a duplex unit on Levels 3 to 4 of a 7-storey composite building completed in about 2005. The property has a total gross floor area of approximately 249.5 sq.m.	The property is currently occupied by the Group for residential and office uses.	No commercial value

Notes:

1. Pursuant to a Tianjin Shi Property Sale and Purchase Contract entered into between Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") (an 80% owned subsidiary of the Group) and Tianjin Kaihua Real Estate Development Co., Ltd. (天津凱華房地產開發有限公司) (the "Vendor") dated on 30 December 2002, the Vendor has agreed to sell the property with a gross floor area of approximately 249.5 sq.m. to Lijun Stock at a consideration of RMB1,395,453.

2. As advised by the Group, the Building Ownership Certificate of the property is under application.

3. In the valuation of the property, we have not attributed any commercial value to the property because the property has not any proper title documents. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB1,622,000 assuming all relevant title ownership certificates have been obtained and the property can be freely transferred.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

    (i) The Tianjin Shi Property Sale and Purchase Contract is legal and valid under the PRC laws, and the relevant payment of the property has been fully settled by the Group; and

    (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Group II – Property interest held by the Group under development in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
9.	A parcel of land and a storehouse under construction located at Chenjiazhai Village Lianhu District Xi'an Shaanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 4,020 sq.m. on which a 2-storey storehouse is under construction. The development is scheduled to be completed in December 2005. The planned gross floor area of the building upon completion will be approximately 2,784 sq.m. The total construction cost is estimated to be approximately RMB6,150,000, of which approximately RMB5,780,759 has been paid up to the date of valuation. The land use rights of the property are leased to the Group for a term of 20 years commencing from 1 January 1999 for storage use.	The property is currently under construction and will be occupied by the Group for storage purposes upon completion.	No commercial value

Notes:

1. Pursuant to a Land Use Rights Tenancy Agreement and a Supplementary Agreement entered into between Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd. (an 80% owned subsidiary of the Group) and Xi'an Shi Chenjiazhai Villager Committee (西安市蓮湖區陳傢寨村村民委員會) (the "Landlord"), a parcel of land with a site area of approximately 4,020 sq.m. is rented to Lijun Stock for storage purposes for a term of 20 years at an annual rental RMB50,000 commencing from 1 January 1999 and expiring on 31 December 2019.

2. In the valuation of this property, we have not attributed any commercial value to the property because the land use rights of the property cannot be freely transferred, sublet or mortgaged by the Group.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of the property is a parcel of collectively-owned land and cannot be granted, transferred or sublet for non-agricultural purposes; and

   (ii) The Land Use Rights Tenancy Agreement is not accordant with the relevant PRC laws or regulations and may not be enforceable. Thus, the relevant government authorities may request Xi'an Lijun to terminate the lease and vacate the land.

VALUATION CERTIFICATE

Group III – Property interest contracted to be transferred by the Group in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
10.	A parcel of land and various buildings No.11 Xi Nanjing Road Weinan Shaanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 13,412.28 sq.m. on which are erected 35 blocks (comprising 17 buildings) completed in various stages between 1970's and 1990's. The buildings have a total gross floor area of approximately 9,308.38 sq.m. The land use rights of the property have been granted for industrial use.	The property is currently vacant.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Weicheng Guo Yong (2004) Di No.126, the land use rights of a parcel of land with a site area of approximately 13,412.28 sq.m. have been granted to Shaanxi Lijun Heng Xin Tang Pharmaceutical Co., Ltd ("Heng Xin Tang") (a 51% owned subsidiary of Xi'an Lijun Pharmaceutical Co., Ltd.) for industrial use.

2. Pursuant to a Building Ownership Certificate-Wei Fang You Zi Di No.210224, the buildings of the property with a gross floor area of approximately 9,308.38 sq.m. is owned by Heng Xin Tang.

3. Pursuant to a Land Use Rights Transfer Contract and a Supplementary Contract entered into between Heng Xin Tang and Shaanxi Qiyue Real Estate Company Limited (陝西齊月置業有限責任公司) ("Transferee") dated on 18 August 2004, the property will be transferred to the Transferee at a consideration of RMB5,290,000. The relevant legal documents will be handed over to the Transferee before 30 June 2006.

4. In the valuation of this property, we have not attributed any commercial value to the property because the property is subject to the Transfer Contract stated in note 3 and cannot be freely transferred, sublet or mortgaged by the Group.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Group has legally obtained the land use rights of the property and can transfer the land use rights of the property under the relevant PRC laws; and

   (ii) The Land Use Rights Transfer Contract is valid, binding and enforceable under the relevant PRC laws.

VALUATION CERTIFICATE

Group IV – Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
11.	2 commercial units No. 226 Sanqiao Road Sanqiao Town Xi'an Shaanxi Province The PRC	The property comprises 2 commercial units of a single-storey building completed in about 2002. The property has a total gross floor area of approximately 160 sq.m. The property is leased from an independent third party for a term of 4 years commencing from 1 January 2004.	The property is currently occupied by the Group for commercial purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Xi'an Hanbang Yuejin Automobile Service Company Limited (西安漢邦躍進汽車服務有限公司) (the "Lessor") and Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd. (an 80% owned subsidiary of the Group), 2 units with a total gross floor area of approximately 160 sq.m. are rented to Lijun Stock for a term of 4 years commencing from 1 January 2004 at an annual rental of RMB65,000, exclusive of water, electricity and management charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor cannot provide the Group with any proper title certificates of the property. Hence, the PRC legal advisers are unable to confirm whether the Lessor has the right to let or sub-let the property or whether the tenancy agreement is valid or enforceable; and

   (ii) As such, the Group may not be protected by the PRC laws when occupying the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
12.	7 office units and 3 commercial units No. 66 Wanshou Bei Road Xi'an Shaanxi Province The PRC	The property comprises 7 office units and 3 commercial units of a single-storey building completed in about 1995. The property has a total gross floor area of approximately 198 sq.m. The property is leased from an independent third party for terms commencing from 1 May 2003 and 30 April 2004, respectively.	The property is currently occupied by the Group for office and commercial purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Huihong Yiyao Jingying Store (惠宏醫藥經營部) ("Huihong") and Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd. (an 80% owned subsidiary of the Group), 7 office units with a total gross floor area of approximately 100 sq.m. are rented to Lijun Stock for a term of 2 years commencing from 30 April 2004 at an annual rental of RMB15,000, exclusive of water, electricity and management charges.

2. Pursuant to a Tenancy Agreement entered into between Huihong and Lijun Stock, 3 commercial units with a total gross floor area of approximately 98 sq.m. are rented to Lijun Stock for a term of 3 years commencing from 1 May 2003 at an annual rental of RMB94,080, exclusive of water, electricity and management charges.

3. We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The property is leased by Huihong from Shaanxi Auto Group Co., Ltd. Wanshou Community Management Centre (陝西汽車集團有限公司萬壽社區管理中心), an independent third party. It is unable to judge whether Huihong has the right to sublet the property to other parties and whether the tenancy agreements are valid or enforceable; and

   (ii) As such, the Group may not be protected by the PRC laws when occupying the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
13.	A storage unit Jiushi Road Xi'an Shaanxi Province The PRC	The property comprises a storage unit of a single-storey building completed in about 1995. The property has a gross floor area of approximately 600 sq.m. The property is leased from an independent third party for a term of 3 years commencing from 1 September 2003.	The property is currently occupied by the Group for storage purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Huihong Yiyao Jingying Store (惠宏醫藥經營部) ("Huihong") and Xi'an Lijun Pharmaceutical Stock Co., Ltd. ("Lijun Stock"), the predecessor of Xi'an Lijun Pharmaceutical Co., Ltd. (an 80% owned subsidiary of the Group), a unit with a gross floor area of approximately 600 sq.m. is rented to Lijun Stock for a term of 3 years commencing from 1 September 2003 at an annual rental of RMB93,600 for storage purposes, exclusive of water, electricity and management charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The property is leased by Huihong from Shaanxi Xitie External Economical Development Co., Ltd. Wanshou Community Management Centre (陝西西鐵對外經濟發展有限公司), an independent third party. It is unable to judge whether Huihong has the right to sublet the property to other parties and whether the tenancy agreement is valid or enforceable; and

   (ii) As such, the Group may not be protected by the PRC laws when occupying the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
14.	6 commercial units located at the middle section of Hancheng Road Lianhu District Xi'an Shaanxi Province The PRC	The property comprises 6 commercial units of a single-storey building completed in about 1988. The property has a total gross floor area of approximately 120 sq.m. The property is leased from an independent third party for a term of a year commencing from 1 April 2005.	The property is currently occupied by the Group for commercial purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Xi'an Shi Chenjiazhai Villager Committee (西安市陳傢寨村民委員會) (the "Lessor") and Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") (an 80% owned subsidiary of the Group), 6 units with a total gross floor area of approximately 120 sq.m. are rented to Xi'an Lijun for a term of a year commencing from 1 April 2005 at an annual rental of RMB79,200.

2. We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor cannot provide the Group with any proper title certificates of the property. Hence, the PRC legal advisers are unable to confirm whether the Lessor has the right to let or sub-let the property or whether the tenancy agreement is valid or enforceable; and

   (ii) As such, the Group may not be protected by the PRC laws when occupying the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
15.	Unit 2501 of Block A Hanguang Jiayuan South Section Gaoxin Road Xi'an Shaanxi Province The PRC	The property comprises an office unit on level 25 of a 26-storey building complex completed in about 2004. The property has a gross floor area of approximately 208 sq.m. The property is leased from an independent third party for a term of a year commencing from 1 May 2005.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Cao Hongzhi (曹鴻智) (the "Lessor") and Shaanxi Lijun Heng Xin Tang Pharmaceutical Co., Ltd ("Heng Xin Tang") (a 51% owned subsidiary of Xi'an Lijun Pharmaceutical Co., Ltd.), a unit with a gross floor area of approximately 208 sq.m. is rented to Heng Xin Tang for a term of a year commencing from 1 May 2005 at a monthly rental of RMB4,000, exclusive of water, electricity and management charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor cannot provide the Group with any proper title certificates of the property. Hence, the PRC legal advisers are unable to confirm whether the Lessor has the right to let or sub-let the property or whether the tenancy agreement is valid or enforceable; and

   (ii) As such, the Group may not be protected by the PRC laws when occupying the property.

VALUATION CERTIFICATE

Group V – Property interest rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 31 October 2005 *RMB*
16.	Unit 1606 on the 16th floor of Office Tower Convention Plaza No.1 Harbour Road Wan Chai Hong Kong	The property comprises an office unit on the 16th floor of a 39-storey office tower erected on 10-storey commercial podium completed in about 1990. The property has a gross floor area of approximately 212.87 sq.m. According to a Tenancy Agreement dated 13 May 2005, the property is leased from an independent third party to the Company for a term of 2 years commencing from 25 April 2005 to 24 April 2007 (both days inclusive) at a monthly rental of HK$94,917, exclusive of rates, air-conditioning charge and management fee.	The property is currently occupied by the Company for office purposes.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 September 2004 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 16 October 2005. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold provides in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 12 October 2004.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

1. Incorporation

The Company was incorporated in the Cayman Islands under the name Lijun International Pharmaceutical (Holding) Co., Ltd. under the Companies Law as an exempted company with limited liability on 28 September 2004. By a written resolution of the Shareholders dated 30 May 2005, the Company changed its name to Lijun Limited, which name was then changed to Lijun International Pharmaceutical (Holding) Co., Ltd. 利君國際醫藥(控股)有限公司 by virtue of a written resolution of the Shareholders of the same date. The Company has established a principal place of business in Hong Kong at Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 13 June 2005. Ms. Sun Xinglai of Flat D, 12th Floor, Winway Court, 3 Tai Hang Road, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is incorporated in the Cayman Islands, it is subject to the Companies Law and various provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of the Company

On the date of incorporation of the Company, its authorised share capital was HK$390,000 divided into 3,900,000 Shares of HK$0.10 each.

On 18 October 2004, one Share was allotted and issued at par to Codan Trust Company (Cayman) Limited and on the same date, that Share was transferred to Mr. Wang Xianjun.

On 28 December 2004, Mr. Wang Xianjun transferred one Share to Prime United Industries Limited.

On 28 December 2004, 5,903 Shares, 178 Shares, 119 Shares, 178 Shares and 57 Shares were respectively allotted and issued fully paid at par to Prime United Industries Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited. On the same date, 3,564 Shares were allotted and issued, credited as fully paid, to Victory Rainbow Investment Limited.

On 13 January 2005, 1,064 Shares were transferred from Victory Rainbow Investment Limited to Success Manage International Limited.

Pursuant to resolutions in writing of all shareholders of the Company passed on 16 October 2005, the authorised share capital of the Company was increased to HK$100,000,000 by the creation of a further 996,100,000 Shares.

Assuming that the Share Offer becomes unconditional, the Capitalisation Issue is completed but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK$100,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK$28,000,000 divided into 280,000,000 Shares, fully paid or credited as fully paid, with 720,000,000 Shares remaining unissued.

On the basis that the Over-allotment Option is exercised in full, 290,500,000 Shares will have been allotted and issued fully paid or credited as fully paid and 709,500,000 Shares will remain unissued.

Save as disclosed herein and as mentioned in the following paragraphs respectively headed "Written resolutions of all the shareholders of the Company passed on 16 October 2005" and "Corporate reorganisation", there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of all the shareholders of the Company passed on 16 October 2005

On 16 October 2005, resolutions in writing of all the shareholders of the Company were passed pursuant to which, inter alia:

(a) the Company approved and adopted its existing Articles;

(b) conditional on (i) the Listing Committee granting the listing of and permission to deal in the Shares in issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme and pursuant to the Share Offer; and (ii) the obligations of the Underwriters under the Placing and Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Placing and Underwriting Agreement or otherwise:

(i) the Share Offer was approved and the Directors were authorised to allot and issue 70,000,000 new Shares and the allotment and issue of such number of Shares as may be required upon the exercise of the Over-allotment Option;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 12 of this appendix headed "Share Option Scheme", were approved and adopted, and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary or expedient to give effect to the Share Option Scheme;

(iii) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise HK$20,999,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 209,990,000 Shares for allotment and issue to Shareholders on the register of members of the Company at the close of business on 16 October 2005 in the following manner:

Name of Shareholder	**No. of Shares to be issued and allotted**
Prime United Industries Limited	123,978,096
Success Manage International Limited	22,342,936
Triuniverse Group Limited	3,737,822
Fame World Investments Limited	2,498,881
Flying Success Investments Limited	3,737,822
Bondwide Trading Limited	1,196,943
Victory Rainbow Investment Limited	52,497,500

(iv) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles or pursuant to the exercise of options to be granted under the Share Option Scheme or pursuant to the Share Offer or the Capitalisation Issue, Shares with an aggregate nominal value not exceeding the sum of 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the Share Offer and the Capitalisation Issue (not including Shares which may be issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(aa) the conclusion of the next annual general meeting of the Company;

(bb) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(cc) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(v) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange, for this purpose, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the Share Offer and the Capitalisation Issue (not including Shares which may be issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(aa) the conclusion of the next annual general meeting of the Company;

(bb) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(cc) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate; and

(vi) the extension of the unconditional general mandate mentioned in paragraph (iv) above to include the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the Share Offer and the Capitalisation Issue as mentioned herein was approved.

4. Corporate reorganisation

In preparing for the Listing, the companies comprising the Group underwent a reorganisation to rationalise the corporate structure of the Group and the Company became the ultimate holding company of the Group. The corporate reorganisation involved the following:

1. On 28 September 2004, the Company was incorporated in the Cayman Islands. On 18 October 2004, one Share was allotted and issued at par to Codan Trust Company (Cayman) Limited and on the same date, that Share was transferred to Mr. Wang Xianjun.

2. On 28 December 2004, Mr. Wang Xianjun transferred one Share at par to Prime United Industries Limited.

3. On 28 December 2004, 5,903 Shares, 178 Shares, 119 Shares, 178 Shares and 57 Shares were respectively allotted and issued fully paid at par to Prime United Industries Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited.

4. On 28 December 2004, the Company entered into respective agreements with Rejoy Technology, Xi'an Sanjiang Enterprise (Group) Co., Ltd., Xi'an Combel Pharmaceutical Co., Ltd., Shenzhen Jinhuo Enterprise Co., Ltd. and Liaoning Huabang Pharmaceutical Co., Ltd., pursuant to which the Company acquired an aggregate of 51.49% of the equity interest in Xi'an Lijun for a total consideration of RMB152,040,000 which was satisfied in cash. On 28 December 2004, the Company also entered into an agreement with Victory Rainbow Investment Limited, pursuant to which the Company acquired from Victory Rainbow Investment Limited 28.51% of the equity interest in Xi'an Lijun, in consideration of which the Company allotted and issued 3,564 Shares, credited as

fully paid, to Victory Rainbow Investment Limited. Upon the completion of the said transfer, Xi'an Lijun became owned as to 80% by the Company and 20% by Rejoy Group.

5. On 13 January 2005, Victory Rainbow Investment Limited entered into a sale and purchase agreement with Success Manage International Limited to sell 1,064 Shares, representing 10.64% of the then issued share capital in the Company, to Success Manage International Limited for a consideration of HK$35,542,645.87.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are referred to in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

On 1 September 2004, Rejoy Group and SPC entered into a sale and purchase agreement with Victory Rainbow Investment Limited pursuant to which Victory Rainbow Investment Limited acquired from Rejoy Group approximately RMB60,127,500 (approximately 28.51% of the total equity interest) in the registered capital of Xi'an Lijun for a cash consideration of RMB126,267,750.

On 28 December 2004, the Company entered into respective agreements with Rejoy Technology, Xi'an Sanjiang Enterprise (Group) Co., Ltd., Xi'an Combel Pharmaceutical Co., Ltd., Shenzhen Jinhuo Enterprise Co., Ltd. and Liaoning Huabang Pharmaceutical Co., Ltd., pursuant to which the Company acquired an aggregate of 51.49% of the equity interest in Xi'an Lijun for a total consideration of RMB152,040,000 which was satisfied in cash. On 28 December 2004, the Company also entered into an agreement with Victory Rainbow Investment Limited, pursuant to which the Company acquired from Victory Rainbow Investment Limited 28.51% of the equity interest in Xi'an Lijun, in consideration of which the Company allotted and issued 3,564 Shares, credited as fully paid, to Victory Rainbow Investment Limited. Upon the completion of the said transfer, Xi'an Lijun became owned as to 80% by the Company and 20% by Rejoy Group.

Save as disclosed in this prospectus and except as referred to in the paragraph headed "Corporate reorganisation" above, there has been no alteration in the share capital of any subsidiary of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own Shares

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Note: Pursuant to a written resolution passed by all the shareholders of the Company on 16 October 2005, a general unconditional mandate (the "Repurchase Mandate") was granted to the Directors authorising the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the Share Offer and the Capitalisation Issue (not including the Shares to be issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme) at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of the Cayman Islands to be held or when such mandate is revoked or varied or refreshed by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

The exercise in full of the Repurchase Mandate, on the basis of 280,000,000 Shares in issue immediately after completion of the Share Offer and Capitalisation Issue and without taking into account the Shares to be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme, would result in up to 28,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(ii) Source of funds

Any repurchase by the Company may only be funded out of funds legally available for such purposes in accordance with the Memorandum and Articles, the Listing Rules and the applicable laws of the Cayman Islands. The Company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the shares which are proposed to be repurchased by the Company must be fully paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase the Shares in the market. Repurchases of the Shares will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets value of the Company and/or its earnings per Share.

(c) *Funding of repurchases*

Repurchase pursuant to the Repurchase Mandate would be financed out of funds of the Group legally available for such purpose in accordance with the Memorandum and the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

The Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) *Director's undertaking*

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

(e) *Disclosure of interests*

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, as defined in the Listing Rules, has any present intention to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

No connected person, as defined in the Listing Rules, has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(f) Takeovers Code consequences

If, as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code.

Immediately after completion of the Share Offer and the Capitalisation Issue and without taking into account the Shares to be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

The Directors have no present intention to exercise the Repurchase Mandate to such an extent as would result in takeover obligations under the Takeovers Code.

FURTHER INFORMATION ABOUT THE BUSINESS

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:–

(a) An agreement dated 28 December 2004 between Rejoy Technology and the Company pursuant to which the Company acquired a 47.23% equity interest in Xi'an Lijun from Rejoy Technology for a consideration of RMB139,440,000;

(b) An agreement dated 28 December 2004 between the Company and Xi'an Sanjiang pursuant to which the Company acquired a 1.42% equity interest in Xi'an Lijun from Xi'an Sanjiang for a consideration of RMB4,200,000;

(c) An agreement dated 28 December 2004 between the Company and Xi'an Combel pursuant to which the Company acquired a 0.95% equity interest in Xi'an Lijun from Xi'an Combel for a consideration of RMB2,800,000;

(d) An agreement dated 28 December 2004 between the Company and Shenzhen Jinhuo pursuant to which the Company acquired a 1.42% equity interest in Xi'an Lijun from Shenzhen Jinhuo for a consideration of RMB4,200,000;

(e) An agreement dated 28 December 2004 between the Company and Liaoning Huabang pursuant to which the Company acquired a 0.47% equity interest in Xi'an Lijun from Liaoning Huabang for a consideration of RMB1,400,000;

(f) An agreement dated 28 December 2004 between the Company and Victory Rainbow Investment Limited pursuant to which the Company acquired a 28.51% equity interest in Xi'an Lijun from Victory Rainbow Investment Limited, in consideration of which the Company allotted and issued to Victory Rainbow Investment Limited 3,564 Shares credited as fully paid;

(g) A memorandum of agreement between Rejoy Technology, Prime United Industries Limited and the Company dated 30 September 2005 pursuant to which the parties acknowledged that it was agreed amongst the parties on 28 December 2004 that (1) Prime United Industries Limited would take up the liability of satisfying the consideration payable by the Company in respect of its acquisition of 47.23% interest in Xi'an Lijun from Rejoy Technology; (2) Rejoy Technology would release and discharge the Company from all liabilities for payment of the consideration mentioned in (1) above on the term that Prime United Industries Limited be substituted as the party liable to satisfy the consideration mentioned in (1) above; and (3) Prime United Industries Limited would waive all its rights and interests in respect of any debt owed by the Company to it arising from the payment as aforesaid and all its claims against the Company in respect of any debt as aforesaid;

(h) A memorandum of agreement between Xi'an Sanjiang, Triuniverse Group Limited and the Company dated 30 September 2005 pursuant to which the parties acknowledged that it was agreed amongst the parties on 28 December 2004 that (1) Triuniverse Group Limited would take up the liability of satisfying the consideration payable by the Company in respect of its acquisition of 1.42% interest in Xi'an Lijun from Xi'an Sanjiang; (2) Xi'an Sanjiang would release and discharge the Company from all liabilities for payment of the consideration mentioned in (1) above on the term that Triuniverse Group Limited be substituted as the party liable to satisfy the consideration mentioned in (1) above; and (3) Triuniverse Group Limited would waive all its rights and interests in respect of any debt owed by the Company to it arising from the payment as aforesaid and all its claims against the Company in respect of any debt as aforesaid;

(i) A memorandum of agreement between Xi'an Combel, Fame World Investments Limited and the Company dated 30 September 2005 pursuant to which the parties acknowledged that it was agreed amongst the parties on 28 December 2004 that (1) Fame World Investments Limited would take up the liability of satisfying the consideration payable by the Company in respect of its acquisition of 0.95% interest in Xi'an Lijun from Xi'an Combel; (2) Xi'an Combel would release and discharge the Company from all liabilities for payment of the consideration mentioned in (1) above on the term that Fame World Investments Limited be substituted as the party liable to satisfy the consideration mentioned in (1) above; and (3) Fame World Investments Limited would waive all its rights and interests in respect of any debt owed by the Company to it arising from the payment as aforesaid and all its claims against the Company in respect of any debt as aforesaid;

(j) A memorandum of agreement between Shenzhen Jinhuo, Flying Success Investments Limited and the Company dated 30 September 2005 pursuant to which the parties acknowledged that it was agreed amongst the parties on 28 December 2004 that (1) Flying Success Investments Limited would take up the liability of satisfying the consideration payable by the Company in respect of its acquisition of 1.42% interest in Xi'an Lijun from Shenzhen Jinhuo; (2) Shenzhen Jinhuo would release and discharge the Company from all liabilities for payment of the consideration mentioned in (1) above on the term that Flying Success Investments Limited be substituted as the party liable to satisfy the consideration mentioned in (1) above; and (3) Flying Success Investments Limited would waive all its rights and interests in respect of any debt owed by the Company to it arising from the payment as aforesaid and all its claims against the Company in respect of any debt as aforesaid;

(k) A memorandum of agreement between Liaoning Huabang, Bondwide Trading Limited and the Company dated 30 September 2005 pursuant to which the parties acknowledged that it was agreed amongst the parties on 28 December 2004 that (1) Bondwide Trading Limited would take up the liability of satisfying the consideration payable by the Company in respect of its acquisition of 0.47% interest in Xi'an Lijun from Liaoning Huabang; (2) Liaoning Huabang would release and discharge the Company from all liabilities for payment of the consideration mentioned in (1) above on the term that Bondwide Trading Limited be substituted as the party liable to satisfy the consideration mentioned in (1) above; and (3) Bondwide Trading Limited would waive all its rights and interests in respect of any debt owed by the Company to it arising from the payment as aforesaid and all its claims against the Company in respect of any debt as aforesaid;

(l) a compliance adviser's agreement dated 15 November 2005 and a supplemental agreement to the compliance adviser's agreement dated 25 November 2005, entered into between Guotai Junan Capital Limited and the Company in relation to the appointment of Guotai Junan Capital Limited as the compliance adviser to the Company;

(m) the Placing and Underwriting Agreement; and

(n) a deed of indemnity dated 1 December 2005 executed by the Controlling Shareholders in favour of the Group containing the indemnities as referred to in the paragraph headed "Estate duty, tax and other indemnities" in the section headed "Other Information" in this appendix.

8. Intellectual Property Rights

(a) Trademarks

As at the Latest Practicable Date, the Group had registered the following trademarks:

Registered owner	Trademark	Place of registration	Class	Registration number	Duration of validity
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	西安	PRC	5 *(Note 1)*	123981	01.03.2003 – 28.02.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	Lijunsha	PRC	5 *(Note 2)*	639297	28.04.2003 – 27.04.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利菌沙	PRC	5 *(Note 2)*	639298	28.04.2003 – 27.04.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	沙利君	PRC	5 *(Note 3)*	984762	21.04.1997 – 20.04.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利沙君	PRC	5 *(Note 3)*	984763	21.04.1997 – 20.04.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	君沙利	PRC	5 *(Note 3)*	984764	21.04.1997 – 20.04.2007

Registered owner	Trademark	Place of registration	Class	Registration number	Duration of validity
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利沙	PRC	5 *(Note 3)*	984769	21.04.1997 – 20.04.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	5 *(Note 3)*	984770	21.04.1997 – 20.04.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君沙	PRC	5 *(Note 3)*	984771	21.04.1997 – 20.04.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	君利沙	PRC	5 *(Note 3)*	984772	21.04.1997 – 20.04.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利迈先	PRC	5 *(Note 4)*	1136702	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利先迈	PRC	5 *(Note 4)*	1136703	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	力迈仙	PRC	5 *(Note 4)*	1136704	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	迈先利	PRC	5 *(Note 4)*	1136705	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	先利迈	PRC	5 *(Note 4)*	1136706	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	立麦仙	PRC	5 *(Note 4)*	1136707	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	迈利先	PRC	5 *(Note 4)*	1136708	21.12.1997 – 20.12.2007
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	Limaixian	PRC	5 *(Note 4)*	1136715	21.12.1997 – 20.12.2007

Registered owner	Trademark	Place of registration	Class	Registration number	Duration of validity
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	派奇	PRC	5 *(Note 5)*	1507688	14.01.2001 – 13.01.2011
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利喜定	PRC	5 *(Note 6)*	1511719	21.01.2001 – 20.01.2011
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	多贝斯	PRC	5 *(Note 7)*	1525860	21.02.2001 – 20.02.2011
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君派同	PRC	5 *(Note 8)*	1732521	21.03.2002 – 20.03.2012
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君派舒	PRC	5 *(Note 8)*	1732522	21.03.2002 – 20.03.2012
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	Rejoy	PRC	5 *(Note 9)*	3103792	07.05.2003 – 06.05.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君健	PRC	30 *(Note 10)*	3229436	28.08.2003 – 27.08.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	30 *(Note 11)*	3277045	14.10.2003 – 13.10.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君同舒	PRC	5 *(Note 8)*	3332352	07.05.2004 – 06.05.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君 Lijun	PRC	44 *(Note 12)*	3335644	28.10.2003 – 27.10.2013
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	35 *(Note 13)*	3335646	07.05.2004 – 06.05.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	32 *(Note 14)*	3335647	07.03.2004 – 06.03.2014

Registered owner	Trademark	Place of registration	Class	Registration number	Duration of validity
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	30 *(Note 15)*	3335648	28.07.2004 – 27.07.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	10 *(Note 16)*	3335649	21.03.2004 – 20.03.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	5 *(Note 17)*	3335650	07.09.2004 – 06.09.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君关爱	PRC	30 *(Note 18)*	3466093	28.07.2004 – 27.07.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	Regale	PRC	5 *(Note 19)*	3483101	14.12.2004 – 13.12.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	派捷	PRC	5 *(Note 20)*	3505357	07.01.2005 – 06.01.2015
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	怡养源	PRC	30 *(Note 21)*	3544501	14.10.2004 – 13.10.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	维欣康	PRC	30 *(Note 21)*	3544518	14.10.2004 – 13.10.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君源	PRC	30 *(Note 21)*	3544519	14.10.2004 – 13.10.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	欣加力	PRC	30 *(Note 21)*	3544520	14.10.2004 – 13.10.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	养力佳	PRC	30 *(Note 22)*	3603207	21.01.2005 – 20.01.2015

Registered owner	Trademark	Place of registration	Class	Registration number	Duration of validity
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	38 *(Note 23)*	3605314	14.05.2005 – 13.05.2015
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	16 *(Note 24)*	3605315	28.06.2005 – 27.06.2015
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	1 *(Note 25)*	3605316	28.06.2005 – 27.06.2015
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	40 *(Note 26)*	3605317	14.03.2005 – 13.03.2015
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.		PRC	5 *(Note 27)*	117341	1.3.2003 – 28.02.2013
Heng Xin Tang	恒心堂 HT	PRC	5 *(Note 28)*	3439747	14.10.2004 – 13.10.2014
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.	小神鹊	PRC	5 *(Note 29)*	3439748	14.10.2004 – 13.10.2014
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.	力效	PRC	5 *(Note 29)*	3439753	14.10.2004 – 13.10.2014
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君美奥	PRC	5 *(Note 30)*	3544517	14.04.2005 – 13.04.2015
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君克林	PRC	5 *(Note 30)*	3559768	07.08.2005 – 06.08.2015
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君美诺	PRC	5 *(Note 30)*	3559769	07.08.2005 – 06.08.2015

Notes:

1. The relevant subject goods under this class include new finished medicines.

2. The relevant subject goods under this class include antibiotics.

3. The relevant subject goods under this class include bulk pharmaceuticals, tablets, powder, injection, solvent dose, capsules.

4. The relevant subject goods under this class include bulk pharmaceuticals, tablets, injection fluid, powder, solvent dose, capsules.

5. The relevant subject goods under this class include various kinds of injection, tablets, capsules for medical use, medicated capsules, bulk pharmaceuticals.

6. The relevant subject goods under this class include bulk pharmaceuticals, capsules for medical use, medicated capsules, tablets, various kinds of injection, Yang sen solvent dose, chemical drugs preparation.

7. The relevant subject goods under this class include bulk pharmaceuticals, capsules for medical use, medicated capsules, tablets, various kinds of injection, chemical drugs preparation.

8. The relevant subject goods under this class include western medicine preparation.

9. The relevant subject goods under this class include medicines for human, medical nutrients, sanitary valves, medical dressing materials, tablets, medical wine, biochemical drugs, capsules for medical use.

10. The relevant subject goods under this class include non-medical nutrient fluid, non-medical nutrient ointment, non-medical nutrient powder, non-medical nutrient capsules, tea substituent.

11. The relevant subject goods under this class include non-medical nutrient fluid, non-medical nutrient ointment, non-medical nutrient powder, non-medical nutrient capsules.

12. The relevant subject goods under this class include hospitals, infirmaries, medical assistance, beauty parlours, health care, optical shops, gardening, pharmaceutical consultation, psychology experts, nursing care (medical).

13. The relevant subject goods under this class include advertisement, advertisement planning, advertisement design, advertising columns for lease, advertisement broadcast, business management assistance, human resources consultation, organising business or advertising exhibitions, advertisement promotion, online advertising.

14. The relevant subject goods under this class include beer, water (beverage), soft drinks, mineral water, vegetable juice (beverage), fruit juice (beverage), coke, non-alcoholic drinks, fruit juice, beverage preparation.

15. The relevant subject goods under this class include coffee, tea, non-medical nutrient capsules, non-medical nutrient ointment, non-medical nutrient powder, non-medical nutrient fluid, edible glucose, candies, flour product, grain product.

16. The relevant subject goods under this class include medical equipment and apparatus, surgical transplant, medical x-ray equipment, radiotherapy equipment, nursing facilities, orthopaedic products, dental facilities, audiphone, non-chemical contraceptives, defibrillator.

17. The relevant subject goods under this class include medicine for human, bulk pharmaceuticals, Chinese finished medicines, biochemical drugs, blood product, veterinary drugs, micro-organisms killing preparations, liquid medicine soaked tissue, medical nutrients and air freshener.

18. The relevant subject goods under this class include non-medical nutrient fluid; non-medical nutrient ointment; non-medical nutrient powder; non-medical nutrient capsules; non-medical nutrient tablets (non-medical nutrient products); tea; substitutes of tea leaves; non-medical royal jelly; candies; non-medical dipping fluid.

19. The relevant subject goods under this class include human drugs; vitamins preparation; medical beverages; pharmaceutical preparation; drug capsules; cod-liver oil.

20. The relevant subject goods under this class include pharmaceutical capsules; pharmaceutical preparation; chemical drugs preparation; bulk pharmaceuticals; injection; human drugs; pharmaceutical chemical preparation; antibiotics; biochemical drugs; tablets.

21. The relevant subject goods under this class include non-medical nutrient powder, non-medical royal jelly, tea beverages, non-medical nutrient ointment, tea, non-medical nutrient capsules, substitutes of tea leaves, edible royal jelly (non-medical), non-medical nutrient fluid and non-medical chewing gums.

22. The relevant subject goods under this class include non-medical nutrient capsules; non-medical nutrient fluid; non-medical nutrient powder; non-medical nutrient ointment; spirulina (non-medical nutrient products).

23. The relevant subject goods under this class include wireless broadcast; news agencies; cable TV; information transmission; telecommunication information; provision of telecommunication connection with the global computer network; teleconferencing service; electronic bulletin service (communication service); institute of communication; computer-aided information and image transmission.

24. The relevant subject goods under this class include paper; sanitary paper; journal; poster and cardboard; paper or plastic bags for package (envelopes, small bags); office necessities (except furniture); writing materials; printed copies; teaching materials (except equipment); model materials.

25. The relevant subject goods under this class include pharmaceutical intermediate; acid; chemical reagent (non-medical and non-veterinary); pharmaceutical preparation preservative; food storage chemicals; industrial preparation; unprocessed synthetic resin; industrial adhesive; tanning materials.

26. The relevant subject goods under this class include medicine processing; chemical reagent processing and handling; manufacturing materials for assembly (for others); refining; dyeing; woodenware manufacturing; paper handling; food and beverage storage; apparel manufacturing; printing.

27. The relevant subject goods under this class include Chinese medicines, pills, powder, cream, small pills, injection and tablets.

28. The relevant subject goods under this class include medicine for human, Chinese finished medicine, medical capsules, tablets, oinments, pills, liquid preparations, bulk pharmaceuticals, biochemical drugs.

29. The relevant subject goods under this class include medicine for human, Chinese finished medicine, tablets, ointments, pills, liquid preparations, biochemical drugs and bulk pharmaceuticals.

30. The relevant subject goods under this class include medicine for human, Chinese finished medicine, bulk pharmaceuticals, medical products, medical capsules, ointments, liquid preparations, tablets, biochemical drugs and medical nutrients.

As at the Latest Practicable Date, the Group had applied for the registration of the following trademarks:

Applicant	Trademark	Place of application	Class	Application date	Application number
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君噻肟	PRC	5	11.10.2002	3332351
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君他啶	PRC	5	11.10.2002	3332353

Applicant	Trademark	Place of application	Class	Application date	Application number
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君 Lijun	PRC	43	15.10.2002	3335645
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	VICTORY	PRC	5	08.02.2003	3454575
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	儿感乐	PRC	5	12.03.2003	3483102
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	金派奇	PRC	5	16.10.2003	3755500
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	水派奇	PRC	5	16.10.2003	3755501
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君噻锐	PRC	5	02.01.2004	3872082
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君噻复	PRC	5	02.01.2004	3872083
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君曲泰	PRC	5	02.01.2004	3872084
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君曲至	PRC	5	02.01.2004	3872085
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君曲诺	PRC	5	02.01.2004	3872086
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君曲星	PRC	5	02.01.2004	3872087

Applicant	Trademark	Place of application	Class	Application date	Application number
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君曲钠	PRC	5	02.01.2004	3872088
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君锐同	PRC	5	02.01.2004	3872089
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君欣同	PRC	5	02.01.2004	3872090
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君锐舒	PRC	5	07.01.2004	3878983
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君力舒	PRC	5	07.01.2004	3878984
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君新舒	PRC	5	07.01.2004	3878985
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君易舒	PRC	5	07.01.2004	3878986
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君特舒	PRC	5	07.01.2004	3878987
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君保舒	PRC	5	07.01.2004	3878988
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君欣定	PRC	5	07.01.2004	3878989
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君拓定	PRC	5	07.01.2004	3878990

Applicant	Trademark	Place of application	Class	Application date	Application number
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君凯定	PRC	5	07.01.2004	3878991
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君益定	PRC	5	07.01.2004	3879002
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	PAIQI	PRC	5	29.01.2004	3897880
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利君	PRC	5	29.01.2004	3897881
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	可好	PRC	5	27.05.2004	4086995
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	利伊佳	PRC	30	19.07.2004	4174452
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.	千子莲 QianZiLian	PRC	5	20.01.2003	3439749
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.	久歌	PRC	5	27.05.2003	3570410
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.	庄里	PRC	5	02.06.2003	3577047
Shaanxi Province Heng Xin Tang Pharmaceutical Co., Ltd.	壮元春	PRC	5	02.06.2003	3577049
Heng Xin Tang	哈派德	PRC	5	15.12.2003	3844943

Applicant	Trademark	Place of application	Class	Application date	Application number
Heng Xin Tang	H O S I T A L	PRC	5	18.02.2004	3916456
Heng Xin Tang		PRC	5	18.02.2004	3916470
Heng Xin Tang	恒心堂	PRC	5	18.02.2004	3916472
Heng Xin Tang	妙济贴	PRC	5	16.08.2004	4219998
Heng Xin Tang	妙济丹	PRC	5	16.08.2004	4219999
Heng Xin Tang	恒心堂 HOSITAL	PRC	5	14.09.2004	4268428
Heng Xin Tang	腸乐	PRC	5	12.01.2005	4459671
The Company	LIJUN INTERNATIONAL 111	Hong Kong	5 and 16	10.10.2005	300508329

(b) *Patents*

As at the Latest Practicable Date, the Group had registered the following patents:

Name of registered owner	Title of patent for design	Place of registration	Patent number/ Certificate number	Duration of patent	Category
Xi'an Lijun	Labelling (標貼)	PRC	ZL 96 3 14810.9/ 57179	14 February 1996 for a term of 10 years	Registered design
Xi'an Lijun	Medicine case (case of powder for injection) (藥盒(粉針藥盒))	PRC	ZL 00 3 19122.2/ 186832	26 May 2000 for a term of 10 years	Registered design
Xi'an Lijun	A chemosynthesis Process for Hydrous Calcium Dobesilate (羥苯磺酸鈣水合物的合成工藝)	PRC	ZL 01 1 31818.X/ 221878	11 December 2001 for a term of 20 years	Invention
Xi'an Lijun	An Inoculation instrument with wide diameter inoculation port for fermentation (大孔徑發酵接種器)	PRC	ZL 03 2 18576.6/ 604213	6 March 2003 for a term of 10 years	Utility model

Name of registered owner	Title of patent for design	Place of registration	Patent number/ Certificate number	Duration of patent	Category
Xi'an Lijun	package box (Azithromycin for injection) (包裝盒(注射用阿奇霉素))	PRC	ZL 03 3 13896.6/ 324511	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	package box (Calcium Dobesliate capsules) (包裝盒(輕苯磺酸鈣膠囊))	PRC	ZL 03 3 13893.1/ 325861	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	package box (Urapidil) (包裝盒(烏拉地爾))	PRC	ZL 03 3 13895.8/ 326163	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	bottle (藥瓶)	PRC	ZL 03 3 13890.7/ 323508	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	package box (Cefoperazone Sodium) (包裝盒(頭孢哌酮鈉))	PRC	ZL 03 3 13898.2/ 337931	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	package box (Cefoperazone Sodium and Sulbactam Sodium) (包裝盒(頭孢哌酮舒巴坦鈉))	PRC	ZL 03 3 13897.4/ 324692	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	package box (Clarithromycin Tablets) (包裝盒(克拉素片))	PRC	ZL 033 138923/ 356910	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	bottle (Erythromyein Enteric-coated Tablets) (包裝瓶(紅霉素))	PRC	ZL 03 3 13891.5/ 390069	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	package box (Victamin C effervescent tablets) (包裝盒(維生素C泡騰片))	PRC	ZL 03 3 13894.X/ 337297	12 March 2003 for a term of 10 years	Registered design
Xi'an Lijun	A Solution of Licorzine and its Preparation Process, the preparation of Licorzine (甘草鋅溶液組合物及其製備工藝和甘草鋅製劑)	PRC	ZL 03 1 34210.8/ 200457	30 May 2003 for a term of 20 years	Invention

As at the Latest Practicable Date, the Group had applied for the registration of the following patents, the registration of which has not yet been granted:

Applicant	Title of patent for design	Place of registration	Application date	Application number	Category
Xi'an Lijun	Sinomenine Hydrochloride Sprays and its Preparation Process (鹽酸青藤鹹噴霧劑及其製備工藝)	PRC	07.07.2003	03134370.8	Invention
Xi'an Lijun	Silybin Emulsion Micro-particle Compound by Self-Emulsion and its Preparation Process (水飛薊素自乳化微孔組合物及其製備工藝)	PRC	07.07.2003	03134371.6	Invention
Xi'an Lijun Pharmaceutical Stock Co., Ltd.	A new kind of Monascus oral Solution and its Preparation Process (一種新型紅曲口服液及其生產方法)	PRC	19.11.2003	200310105937.7	Invention
Heng Xin Tang	package box (Liquid pills) (包裝盒(水丸))	PRC	10.09.2004	200430077351.X	Registered design
Heng Xin Tang	package box (Large honeyed pills) (包裝盒(蜜丸))	PRC	10.09.2004	200430077352.4	Registered design

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

9. Disclosure of interests

(a) *Directors' interests and short positions in the shares and debentures of the Company and its associated corporation*

Immediately following completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to any option to be granted under the Share Option Scheme), the interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed, will be as follows:

Interests of Directors in the Company

Name of Director	Capacity	Number of Shares	Approximate percentage of the issued share capital immediately after the completion of the Share Offer
Mr. Wu Qin	Interest in a controlled corporation *(Note 1)*	22,344,000 (L)	7.98%

The letter "L" denotes the person's long position in such Shares.

Note 1. These Shares will be registered in the name of and beneficially owned by Success Manage International Limited, 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 International Limited.

(b) *Other notifiable interests and short positions in Shares under the SFO and the substantial shareholders*

Save as disclosed in the section headed "Substantial Shareholders" of this prospectus, the Directors or chief executives of the Company are not aware of any other person, not being a Director or chief executive of the Company, who has an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(c) Particulars of Directors' service contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years commencing from 16 October 2005. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

The basic annual salaries of the executive Directors under the service contracts are as follows:

Mr. Wu Qin	HK$840,000
Mr. Wu Zhihong	HK$600,000
Mr. Huang Chao	HK$600,000
Mr. Xie Yunfeng	HK$360,000
Ms. Sun Xinglai	HK$360,000

Each of the executive Directors will be entitled to reimbursement of all reasonable out-of-pocket expenses and other benefits such as medical insurance.

Save as disclosed above, none of the Directors has or is proposed to enter into a service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(d) Directors' remuneration

During the year ended 31 December 2004, the aggregate of the remuneration paid and benefit in kind granted to the executive Directors by the Group was about RMB1,994,000.

Under the arrangements currently in force as at the date of this prospectus, the estimated amount of directors' fees and other emoluments payable to the Directors for the year ending 31 December 2005 will be approximately RMB2,310,000.

Save as disclosed herein:

(a) none of the Directors or any chief executive of the Company has any interests and/or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO), which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed;

(b) none of the Directors and experts referred to under the heading "Consents of experts" in this appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) taking no account of any Shares which may be taken up under the Share Offer or upon the exercise of any option which may be granted under the Share Option Scheme, the Directors are not aware of any person, not being a Director or chief executive of the Company, who will, immediately following completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised), be interested in or has short positions in, directly or indirectly, Shares or underlying shares then in issue which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group;

(e) none of the Directors or the experts referred to under the heading "Consents of experts" in this appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(f) none of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or five largest customers.

10. Agency fees or commissions received

The underwriting commission, documentation fee, the trading fee and transaction levy, brokerage, legal and other professional fees and other expenses relating to the Share Offer are estimated to amount to approximately HK$23,000,000 in aggregate (assuming the Over-allotment Option is not exercised). The aggregate commissions and fees will be borne fully by the Company.

Save as disclosed above, none of the Directors nor the promoters of the Company had received any agency fee or commission from the Group within the two years immediately preceding the date of this prospectus.

11. Related party transactions

Save as disclosed in note 31 to the section headed "Related Party Transactions and Balances" in the accountants' report set out in Appendix I to this prospectus and other parts of this prospectus, the Group has not engaged in any dealings with the Directors and their associates during the two years immediately preceding the date of this prospectus.

12. Share Option Scheme

(1) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution passed by all shareholders of the Company on 16 October 2005:

(a) Purpose

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives for their contribution to the Group.

(b) Who may join and basis of eligibility

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (f) below:

(i) any employee or proposed employee (whether full-time or part-time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries 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; and

(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, and for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of Option under the Scheme.

The basis of eligibility of any of the above class of participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group.

(c) Maximum number of Shares

(i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time.

(ii) The total number of Shares which may be issued upon exercise of all outstanding options (excluding, for this purpose, options which have lapsed in accordance with the terms of the share option scheme and any other share option scheme of the Company) to be granted under the share option scheme and any other share option scheme of the Company must not in aggregate exceed 28,000,000 Shares, being 10% of the Shares in issue upon completion of the Share Offer and the Capitalisation Issue assuming there is no exercise of the Over-allotment Option (the "General Mandate Limit").

(iii) Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of its shareholders in general meeting to refresh the General Mandate Limit. However, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme under the limit as "refreshed" must not exceed 10% of the shares in issue as at the date of approval of the limit. Options previously granted under the Share Option Scheme or any other share option scheme of the Company (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or other share option scheme or exercised options) will not be counted for the purpose of calculating the limited as "refreshed". The Company will send a circular to its shareholders containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval by its shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will send a circular to the shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(d) Maximum entitlement of each participant and connected persons

(i) Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

(ii) Where any further grant of options to a participant would result in the Shares issued and to be issued to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting. The Company will send a circular to the shareholders and the circular must disclose the identity of the participant, the number and terms of the options to be granted (and options previously granted to such participant), the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before shareholders' approval and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(iii) Notwithstanding the aforesaid, such grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Company's independent non-executive Directors (excluding any independent non-executive Director who is the grantee).

(iv) If any grant to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1 % of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the date of a grant is made, in excess of HK$5 million,

such further grant of options must be approved by shareholders of the Company. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

(e) Minimum period of holding an option and performance target

The Directors will have the absolute discretion to fix the minimum period for which an option must be held before it can be exercised, and the performance targets that must be achieved before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the nominal value of the Shares, (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive trading days immediately preceding the date of grant of the option on which there were dealings in the Shares on the Stock Exchange (or during any period when the Company has been listed for less than five trading days, the Offer Price shall be taken as the closing price for any such day falling within the period before listing) and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a trading day). A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

(g) Rights are personal to grantee

An option may not be transferred or assigned and is personal to the grantee.

(h) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(i) Rights on ceasing employment or death

If the grantee of an option leaves the service of the Group or Invested Entity for any reason other than death, serious misconduct or certain other grounds, before exercise the option in full, the option shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine.

If the grantee of an option ceases to be an employee of the Group or Invested Entity by reason of death, ill-health or retirement in accordance with his contract of employment, before exercise of option in full, his or her lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of twelve months thereafter, failing which it will lapse.

(j) Rights on dismissal

If the grantee of an option leaves the service of the Group or Invested Entity by the reason of serious misconduct or on certain other grounds, his or her option will thereupon lapse forthwith and will not in any event be exercisable on or after the date of cessation to be on employee.

(k) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees (or his personal representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional or arrangement is formally proposed to shareholders of the Company, a grantee (or his personal representative(s)) shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in accordance with the provisions of the share option scheme at any time before the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

(l) Rights on winding-up

In the event of an effective resolution being passed for the voluntary winding up of the Company during the option period, the grantee of an option (or his or her legal personal representative(s)) may by notice in writing to the Company elect to exercise the option within two business days prior to the proposed general meeting of the Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation pari passu with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding up of the Company.

(m) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank pari passu with the other fully-paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of exercise of the option other than any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise of the option.

(n) Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

(o) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in Rule 17.03 of the Listing Rules shall not be altered to the advantage of the grantees or the prospective grantees without the prior sanction of any ordinary resolution of the Company in general meeting. The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements under Chapter 17 of the Listing Rules. Any change to the authority of the directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Share Option Scheme must be approved by the shareholders of the Company in general meeting.

(p) Effect of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalization of profits or reserves, rights issue, consolidation, sub-division or reduction of the shares capital of the Company or otherwise, such corresponding alternations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the share option scheme or the option so far as unexercised and/or the option price and/or the method of exercise of the option and/or the maximum number of shares referred to in the paragraph headed "Maximum number of Shares" provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of the Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; and (iv) the issue of securities of the Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(q) Cancellation of options granted but not yet exercised

The Board may affect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where the Company cancels any options granted and offers to grant or grants new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there is available unissued options (excluding the cancelled options) within each of the limits as referred of in paragraph (c) above.

(r) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of such options; and (ii) upon the obligations of the Underwriters under the Placing and Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Placing and Underwriting Agreement; and the passing of an ordinary resolution by the Shareholders at a general meeting to approve the adoption of the Share Option Shares, and to authorise the Directors to grant options to subscribe for Shares hereunder and to allot, issue and deal with the Shares pursuant to the exercise of any options granted under the Share Option Scheme.

(s) Termination of the Share Option Scheme

The Company may by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

(2) Present status of the Share Option Scheme

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

OTHER INFORMATION

13. Estate duty, tax and other indemnities

The Controlling Shareholders (together the “Indemnifiers”) executed a deed of indemnity in favour of the Group (being a material contract referred to in the paragraph headed “Summary of material contracts” in this Appendix) to provide indemnities jointly and severally in respect of, amongst other matters, tax liabilities against any members of the Group in respect of any income or profits earned, accrued or received on or before the date on which the Share Offer becomes unconditional and any liability for the Hong Kong estate duty which might be incurred by any members of the Group by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance (to any member of the Group on or before the date on which the Share Offer becomes unconditional save (i) where provision has been made for such taxation in the audited accounts of any member of the Group for the period up to 30 June 2005; or (ii) in respect of taxation which would not have arisen but for some act or omission of, or transactions voluntarily effected by a member other than acts or omissions carried out or effected in the ordinary course of business, carried out, made or entered into pursuant to a legally binding commitment created on or before the date on which the Share Offer becomes unconditional, or consisting of any member of the Group ceasing or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or (iii) in respect of over-provision or excessive reserve for any taxation in the audited accounts of any member of the Group for the period ended 30 June 2005; or (iv) where the taxation claim arises or is incurred as a result of a retrospective change in law or practice coming into force after the date on which the Share Offer becomes unconditional.

Pursuant to the deed of indemnity, the Indemnifiers shall also indemnify any members of the Group against any costs, claim, penalties, losses and other liabilities which may be incurred or suffered by any members of the Group as a result of or arising from the Tenancy Agreement and the Six Tenancy Agreements (as defined in the section headed "Risk factors" in this prospectus), being null, void, illegal, invalid or enforceable under any PRC laws, rules and regulations and any and all losses, expenses and penalties (if any) which may be incurred due to termination of the Tenancy Agreement and the Six Tenancy Agreements, any and all expenses which may be incurred due to the demolition of properties situated on the Tenancy Agreement and the Six Tenancy Agreements ordered by the relevant PRC authority.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the British Virgin Islands.

14. Litigation

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

15. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee for the listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

16. Registration procedures

Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Butterfield Fund Services (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's share register in Hong Kong and may not be lodged in the Cayman Islands.

17. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK$23,400 and are payable by the Company.

18. Promoter

The Company has no promoter. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given or proposed to be paid, allotted or given to any promoters in connection with the Share Offer or the related transaction described in this prospectus.

19. Qualification of experts

The following are the qualifications of the experts which have given their opinion or advice which is contained in, or referred to in, this prospectus:

Expert	Qualification
VXL	Licensed Corporation to carry on a business in type 6 regulated activity (advising on corporate finance) under the SFO
PricewaterhouseCoopers	Certified public accountants
Sallmanns (Far East) Limited	Professional surveyors and valuers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Haiwen & Partners	PRC legal advisers

20. Consents of experts

Each of VXL, PricewaterhouseCoopers, Sallmanns (Far East) Limited, Conyers Dill & Pearman and Haiwen & Partners has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion (as the case may be) and the references to its name included herein in the form and context in which they are respectively included.

21. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

22. Miscellaneous

(a) Save as disclosed in this prospectus:

   (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

   (ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;

(iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms has been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries;

(v) within the two years preceding the date of this prospectus, no commission has been paid or payable (excluding commission payable to sub-underwriters) for subscription agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in the Company;

(vi) the Directors confirm that since 30 June 2005, there has been no material adverse change in the financial or trading position or prospects of the Group; and

(vii) none of VXL, PricewaterhouseCoopers, Sallmanns (Far East) Limited, Conyers Dill & Pearman and Haiwen & Partners:

– is interested beneficially or non-beneficially in any shares in any member of the Group; or

– has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

(b) No company within the Group is presently listed on any stock exchange or traded on any trading system.

(c) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus.

(d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** AND **PINK** application forms, the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus, copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus and a statement of adjustments to the accountants' report set out in Appendix I to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Mallesons Stephen Jaques, at 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountants' report prepared by the reporting accountants, PricewaterhouseCoopers, the texts of which are set out in Appendix I to this prospectus, and the related statement of adjustments;

(c) the letter relating to the unaudited pro forma financial information, received from PricewaterhouseCoopers, the texts of which are set out in Appendix II to this prospectus;

(d) the letter, summary of values and valuation certificates prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix III to this prospectus;

(e) the rules of the Share Option Scheme;

(f) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law as referred to in the section headed "Summary of the constitution of the Company and Cayman Islands company law" in Appendix IV to this prospectus;

(g) the Companies Law;

(h) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus;

(i) a legal opinion prepared by Haiwen & Partners, the Company's legal adviser as to the PRC law, in relation to the Group's property interests in the PRC as referred to in Appendix III to this prospectus;

(j) a legal opinion prepared by Haiwen & Partners in relation to the establishment and operation of certain PRC entities within the Group;

(k) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus; and

(l) the service contracts of the executive Directors referred to in the paragraph headed "Particulars of Directors' service contracts" in Appendix V to this prospectus.