
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Lijun International Pharmaceutical (Holding) Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this circular.



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)

(stock code: 2005)

DISCLOSEABLE AND CONNECTED TRANSACTION

**Financial Adviser to the Company
Guotai Junan Capital Limited**



**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



BARITS SECURITIES (HONG KONG) LIMITED

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on page 13 of this circular.

A letter from Barits Securities (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 14 to 24 of this circular.

A notice convening an extraordinary general meeting of Lijun International Pharmaceutical (Holding) Co., Ltd. to be held at Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 23 June 2006 at 10:30 a.m. is set out on pages 32 to 33 of this circular. Whether you are able or not to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar and transfer office of Lijun International Pharmaceutical (Holding) Co., Ltd., Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

CONTENTS

	<i>Page</i>
Definitions	1-3
Letter from the Board	4-12
Letter from Independent Board Committee	13
Letter from Barits	14-24
Appendix — General Information	25-31
Notice of EGM	32-33

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“associates”	shall have the meaning as prescribed under the Listing Rules;
“Barits”	Barits Securities (Hong Kong) Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and Independent Shareholders;
“Board”	the board of directors of the Company;
“Company”	Lijun International Pharmaceutical (Holding) Co., Ltd., a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the main board of the Stock Exchange;
“Completion”	the completion of the Transfer;
“Connected Transaction” or “Transfer”	the transfer of 20% equity interests in Xi’an Lijun from Rejoy Group to the Company under the Transfer Agreement;
“Directors”	directors of the Company;
“EGM”	extraordinary general meeting of the Company to be held at Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 23 June 2006 at 10:30 a.m. to approve, inter alia, the Connected Transaction;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong Special Administrative Region;

DEFINITIONS

“Independent Board Committee”	the independent board committee established to advise the Independent Shareholders pursuant to the requirements of the Listing Rules;
“Independent Shareholders”	Shareholders who have no interest whatsoever in the Connected Transaction;
“Latest Practicable Date”	2 June 2006, the latest practicable date prior to the printing of this circular for the ascertaining certain information contained herein;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Prospectus”	the prospectus of the Company dated 2 December 2005;
“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;
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong;
“Shareholders”	shareholders of the Company;
“Shares”	Shares of HK\$0.10 each of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	shall have the meaning ascribed to it under s.2 of the Companies Ordinance, Cap 32, of the laws of Hong Kong and “subsidiaries” shall be construed accordingly;
“Transfer Agreement”	the agreement dated 16 May 2006 entered into between Rejoy Group and the Company;
“Xi’an Lijun”	Xi’an Lijun Pharmaceutical Co., Ltd (西安利君製藥有限責任公司), a company established in the PRC with limited liability; and

DEFINITIONS

“%”

per cent.

For the purpose of this circular, (i) the exchange rate between HK\$ and RMB is stated at HK\$1 = RMB1.03; and (ii) certain English translations of Chinese names or words are included for information purpose only and should not be relied upon as the official translation of such Chinese names or words.

LETTER FROM THE BOARD



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)

(stock code: 2005)

Executive Directors

Wu Qin (*Chairman*)

Wu Zhihong

Huang Chao

Xie Yunfeng

Sun Xinglai

Non-executive Director

Liu Zhiyong

Independent non-executive Directors

Qu Jiguang

Leung Chong Shun

Chow Kwok Wai

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

Office 1606, 16th Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

5 June 2006

To the Shareholders,

Dear Sir or Madam

DISCLOSEABLE AND CONNECTED TRANSACTION

1. INTRODUCTION

By an announcement dated 16 May 2006, the Board announced that the Company entered into the Transfer Agreement with Rejoy Group, pursuant to which Rejoy Group agreed to transfer 20% equity interests in Xi'an Lijun to the Company. Xi'an Lijun is currently owned as to 80% by the Company and 20% by Rejoy Group respectively.

The purpose of this circular is to provide you with further details of the Transfer Agreement, the advice of Barits to the Independent Board Committee and Independent Shareholders, the recommendation of the Independent Board Committee and a notice convening the EGM.

LETTER FROM THE BOARD

2. DETAILS OF THE TRANSFER AGREEMENT

Particulars of the Transfer Agreement are set out below:

Date

16 May 2006

Parties

Vendor: Rejoy Group, a substantial shareholder of Xi'an Lijun (a subsidiary of the Company)

Purchaser: The Company

Consideration

Pursuant to the Transfer Agreement, the Company will pay a consideration of RMB102,556,452 (equivalent to approximately HK\$99,569,371) to Rejoy Group.

The consideration was arrived at after arm's length negotiations between the Company and Rejoy Group with reference to the valuation of Xi'an Lijun at RMB 405,874,995.49 as at 31 December 2005 prepared by 中宇資產評估有限責任公司, a qualified valuer in the PRC. The valuation was prepared in accordance with the requirement of the "Provisional Rules on Transfer of State-owned Property Rights" 《企業國有產權轉讓管理暫行辦法》. As confirmed by the PRC legal adviser of the Company, the "Provisional Rules on Transfer of State-owned Property Rights" are applicable as Rejoy Group, the vendor, is a solely state-owned company in the PRC. The Directors have confirmed that the valuer is independent to the Company and Rejoy Group. The expertise of the valuer is in the valuation of plants and equipment. The valuer has used the cost method in the valuation of Xi'an Lijun.

The consideration agreed under the Transfer Agreement represents an approximate 26.34% premium of the valuation of Xi'an Lijun or approximately 6.4% of the net book value of Xi'an Lijun as at 31 December 2005. To the best of the Directors' knowledge, the price-to-earning ratio is one of the most commonly used financial indicators to value assets. The Directors noted that the consideration represents a price-to-earning ratio of approximately 4.41 times which was substantially lower than that of the Company as at the date of the agreement (which was approximately 10.02 times). The implication as perceived by the Directors is that the price for the Transfer is, in comparative terms, low and as such the Directors considered that the Transfer is fair and reasonable. Furthermore, Xi'an Lijun is the main operating subsidiary of the Company. The Directors

LETTER FROM THE BOARD

also considered that the pharmaceutical industry in the PRC is expected to be favourably affected by (i) improving standard of living in the PRC; (ii) aging population of the PRC; (iii) increasing government spending on the public; and (iv) accession of the PRC to the WTO.

Xi'an Lijun has a registered capital of RMB210.9 million as at the Latest Practicable Date. As confirmed by capital verification report(s) on Xi'an Lijun, the registered capital of Xi'an Lijun has been fully paid up, with Rejoy Group having paid up its portion of the registered capital.

Payment

Subject to the satisfaction of the conditions under the Transfer Agreement, the consideration shall be satisfied in full by remittance in Hong Kong Dollars within 1 month upon obtaining the approval as set out in paragraph (b) in the section headed "Conditions" below. The consideration shall be satisfied in cash in full and the Directors' present intention is that such consideration will be wholly funded by bank financing.

Conditions

Completion of the Transfer is conditional upon, amongst other things, the following conditions precedent being satisfied:

- (a) in respect of the Transfer, both parties having complied with their respective internal approval procedures, including but not limited to the procedures as set out in their respective articles of association or their respective internal control procedures, and having obtained all written approvals in accordance with such procedures. In addition, both parties having received a duplicate copy of the aforesaid internal approval documents in relation to the Transfer Agreement from the other party;
- (b) necessary approvals for the Transfer Agreement having been obtained from the State-owned Assets Supervision and Administration Commission of Shaanxi Provincial People's Government (陝西省人民政府國有資產監督管理委員會);
- (c) necessary approvals for the Transfer Agreement having been obtained from the Department of Commerce of Shaanxi Provincial People's Government (陝西省商務廳);
- (d) a wholly-foreign owned enterprise business licence (外商獨資工商登記) having been obtained from the PRC business registration authority (工商登記管理機關); and

LETTER FROM THE BOARD

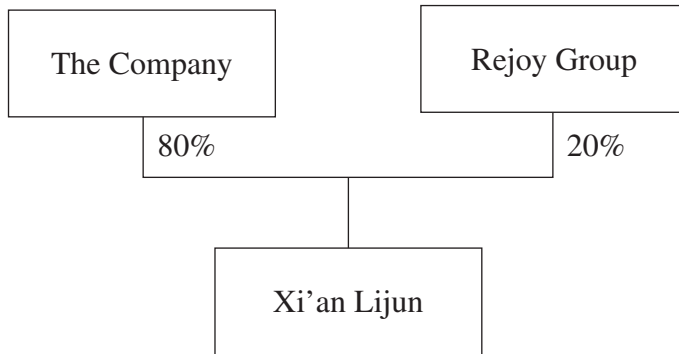
- (e) in respect of the Transfer, the Company having complied with the requirements under the Listing Rules, including the passing of a resolution for approving the Transfer by the Independent Shareholders at the EGM.

If the above conditions are not fulfilled on or before 31 October 2006 or such other time as the parties may agree, the Transfer Agreement shall be of no effect and all rights and obligations of all parties under the Transfer Agreement shall lapse.

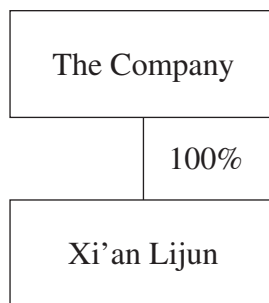
3. SHAREHOLDING STRUCTURE OF XI'AN LIJUN

Set out below is the shareholding structure of Xi'an Lijun before and after the Completion of the Transfer.

Before the Completion of the Transfer and as at the Latest Practicable Date:



After the Completion of the Transfer:



4. INFORMATION ON XI'AN LIJUN

Xi'an Lijun, the principal non wholly-owned subsidiary of the Company, was established on 28 November 1999 and is engaged in the development, manufacture and distribution of pharmaceutical products in the PRC. Turnover for the year ended 31 December 2005 and total assets as at 31 December 2005 of Xi'an Lijun accounted for approximately 100% of the Group's consolidated turnover for the year ended 31 December 2005 and

LETTER FROM THE BOARD

approximately 82.6% of the Group's consolidated total assets as at 31 December 2005 respectively. The production plant of Xi'an Lijun is located in Xi'an City of Shaanxi Province and has a registered capital of RMB210.9 million as at the Latest Practicable Date. Xi'an Lijun is one of the leading pharmaceutical manufacturers in the PRC and produces more than 100 pharmaceutical products (such as in forms of tablets, capsule, granule, injection, powder for injection and lyophilized powder for injection) for the pharmaceutical market in the PRC.

Pursuant to the restructuring of the Group for the listing of the Shares, the Company acquired an aggregate of 80% of the equity interests in Xi'an Lijun in December 2004 from parties who are not connected with Rejoy Group. Please refer to page 71 of the Prospectus for further information in that regard. With the exception of the Transfer, the Group has never acquired equity interests in Xi'an Lijun directly from Rejoy Group or its connected persons.

The following sets out a summary of the audited consolidated income statement and the balance sheet of Xi'an Lijun for the two years ended 31 December 2005 prepared in accordance with the PRC accounting standards.

	Year ended 31 December	
	2005	2004
	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Turnover	882,570	897,997
Gross profit	465,816	469,100
Other gains — net	1,468	-819
Selling and marketing costs	209,820	238,371
General and administrative expenses	108,909	85,583
Finance costs	11,212	7,032
Profit/(Loss) before tax	137,342	137,293
Profit/(Loss) after tax	137,342	114,663
Fixed assets	430,892	425,097
Intangible assets	8,295	3,037
Long term investment	1,134	1,210
Current assets	435,685	443,635
Total assets	876,006	872,979
Current liabilities	304,147	419,981
Long term liabilities	89,806	104,411
Total liabilities	393,953	524,392
Net book value	482,053	348,587

LETTER FROM THE BOARD

In spite that the turnover of Xi'an Lijun for the year ended 31 December 2005 dropped slightly by approximately 1.72% as compared to that of 2004, the net profit after tax for the year ended 31 December 2005 increased to approximately RMB137.34 million from approximately RMB114.66 million for the year ended 31 December 2004, representing an increment of approximately 19.78%. This is because Xi'an Lijun has obtained approvals in May 2005 (which became effective from 1 January 2005) from the relevant tax authorities in Xi'an, , for their entitlement to exemption from Enterprise Interest Tax ("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 decrease in the turnover for the year ended 31 December 2005 was mainly because the national antibiotics market remained sluggish for the year 2005, under the impact of the "Notice on Strengthening Controls on sales of Antibacterial Agents in Retail Pharmacy Stores" (關於加強零售葯店抗菌葯物銷售監管合理用葯的通知) ("No. 289 Document") issued by the State Food and Drug Administration which provides that antibiotics can only be sold by retail drug stores with the prescription of physicians, in addition to the order issued by the National Development and Reform Commission to further reduce the price of antibiotics. However, the Group timely adjusted its sales strategies and adopted a number of measures for stabilising its sales strategies and adopted a number of measures for stabilising its sales to maintain a respectable performance.

Net book value of Xi'an Lijun as of 31 December 2005 was approximately RMB 482.05 million. The increase of the consolidated net asset value of Xi'an Lijun as of 31 December 2005 to approximately RMB 482.05 million from approximately RMB348.59 million as of 31 December 2004 was mainly attributable to the net profits generated in the year ended 31 December 2005.

The difference in the valuation and net book value of Xi'an Lijun is mainly attributed to adjustments arising from proposed dividend and provision on Staff Welfare Fund.

As Xi'an Lijun will continue to enjoy preferential tax rate in the coming few years, the Directors considered that the acquisition of the remaining 20% of Xi'an Lijun will benefit the Company and its Shareholders.

5. INFORMATION ON REJOY GROUP

Rejoy Group is a company established in the PRC and is 100% held by Shaanxi Pharmaceutical Company (陝西省醫葯總公司), which is under the direct supervision of the Shaanxi Provincial Government (陝西省人民政府).

Rejoy Group is an investment holding company which has two principal subsidiaries as at the Latest Practicable Date, including Shaanxi Xi'an Pharmaceutical Factory (陝西省西安製葯廠) and Xi'an Rejoy Medicine Co., Ltd. (西安利君醫葯有限責任公司)

LETTER FROM THE BOARD

Rejoy Group was one of the promoters of Xi'an Lijun at the time of its establishment on 28 November 1999.

Rejoy Group has no other relationship with the Group save that Mr. Wu Qin and Mr. Wu Zhihong, executive Directors, are also directors of Rejoy Group. Please refer to page 142 of the Prospectus on this issue.

6. REASONS FOR THE TRANSFER

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 set out in the Prospectus, the Company has the intention to purchase the remaining 20% of Xi'an Lijun from Rejoy Group after the listing of the Shares on the Stock Exchange. As at the Latest Practicable Date, Xi'an Lijun is the principal non wholly-owned subsidiary of the Company. The future profit or loss of Xi'an Lijun attributable to the Group will be increased by approximately 20% following the completion of the Transfer. As the Transfer will be financed by bank borrowing, the Directors expect that the Group's total liabilities will increase by approximately RMB 102,556,452 after the completion of the Transfer. The Directors are of the view that the purchase of the remaining 20% equity interests in Xi'an Lijun will provide a good opportunity to the Company to take the full operation benefits from Xi'an Lijun in the pharmaceutical industry in the PRC. In addition, when Xi'an Lijun becomes a wholly-owned subsidiary of the Company, Xi'an Lijun's profits will be fully attributed to the shareholders of the Company. The Directors believe that the terms of the Transfer, which was determined on an arm's length basis, are fair and reasonable and in the interests of the Shareholders as a whole. To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, the Directors considered that the Transfer will not have any disadvantage to the Company and the Shareholders as a whole.

7. LISTING RULES IMPLICATIONS

Rejoy Group is a substantial shareholder of Xi'an Lijun, a subsidiary of the Company, and as such Rejoy Group is a connected person of the Company under the Listing Rules. The Transfer therefore constitutes a connected transaction of the Company for the purpose of the Listing Rules. In addition, as the relevant percentage ratio as defined under Rule 14.07 of the Listing Rules is 5% or more but less than 25%, the Transfer also constitutes a discloseable transaction of the Company under the Listing Rules.

As each of the relevant percentage ratios is equal to or more than 2.5% but less than 25% and the total consideration for the Transfer is more than HK\$10,000,000, the Transfer is subject to approval by the Independent Shareholders under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

8. EGM

The Company will convene the EGM for considering and, if thought fit, passing the resolution for the approval of the Transfer Agreement by the Independent Shareholders by way of poll.

As required by the Listing Rules, the following persons will not vote at the EGM:

- (a) any connected person with a material interest in the Connected Transaction;
- (b) any Shareholder with a material interest in the Connected Transaction and its associates; and
- (c) any person falling with Rules 14A.13(1)(b)(i) to (iv) that has a material interest in the Connected Transaction and its associates.

As confirmed by Rejoy Group, Rejoy Group, its subsidiaries and its ultimate beneficial owners do not hold any shares in the Company. To the best of the knowledge, information and belief, after having made reasonable inquiries, the Directors take the view that no Shareholder is materially interested in the Transfer and therefore no Shareholder is required to abstain from voting at the EGM.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong and in any event not later than 48 hours before the time appointed for the holding of the meeting of the EGM or any adjourned meeting thereof, or, in the case of a poll taken subsequently to the date of the EGM or adjourned meeting, not later than 24 hours before the time appointed for the taking of the poll. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 13 of this circular and the letter from Barits to the Independent Board Committee and Independent Shareholders set out on pages 14 to 24 of this circular.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Transfer Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

The Independent Board Committee, having considered the information contained in this letter and taking in account the advice of Barits, has come to the view that the Transfer is fair and reasonable. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Transfer at the EGM.

10. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Wu Qin
Chairman



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)

(stock code: 2005)

5 June 2006

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 5 June 2006 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein, unless the context requires otherwise .

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Transfer Agreement are fair and reasonable so far as the interests of the Shareholders are concerned. Accordingly, the Board have appointed Barits as the independent financial adviser to advise us and Independent Shareholders in respect of the Transfer.

We wish to draw your attention to the letter from the Board on pages 4 to 12 of the Circular, which sets out information in connection with the Transfer. We also wish to draw your attention to the letter from Barits to the Independent Board Committee and Independent Shareholders which contains its advice to us in respect of the Transfer as set out on pages 14 to 24 of the Circular.

Having considered the information contained in the letter from the Board and taking into account the advice and recommendation of Barits, we consider that the Transfer is fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Transfer at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Chow Kwok Wai, *Independent non-executive Director*

Qu Jiguang, *Independent non-executive Director*

Leung Chong Shun, *Independent non-executive Director*

LETTER OF ADVICE FROM BARITS

The following is the text of the letter of advice from Barits to the Independent Board Committee and the Independent Shareholders dated 5 June 2006 for incorporation in this circular.



BARITS SECURITIES (HONG KONG) LIMITED

Room 3406, 34/F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

5 June 2006

To the Independent Board Committee and the Independent Shareholders of
Lijun International Pharmaceutical (Holding) Co., Ltd.

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Transfer, details of which are set out in the announcement dated 16 May 2006 and this circular of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in this circular unless the context otherwise requires.

As referred to in the Letter from the Board as set out in this circular, the Company entered into the Transfer Agreement on 16 May 2006 with Rejoy Group pursuant to which Rejoy Group agreed to conditionally transfer 20% equity interests in Xi'an Lijun to the Company. The consideration is RMB102,556,452 (equivalent to approximately HK\$99,569,371). Xi'an Lijun is currently owned as to 80% by the Company and 20% by Rejoy Group. Upon completion of the Transfer, Xi'an Lijun will become a wholly-owned subsidiary of the Company.

Rejoy Group is a substantial shareholder of Xi'an Lijun, a subsidiary of the Company, and as such Rejoy Group is a connected person of the Company under the Listing Rules. The Transfer therefore constitutes a connected transaction of the Company for the purpose of the Listing Rules. In addition, as the relevant percentage ratio as defined under Rule 14.07 of the Listing

LETTER OF ADVICE FROM BARITS

Rules is 5% or more but less than 25%, the Transfer also constitutes a discloseable transaction of the Company under the Listing Rules. As each of the relevant percentage ratios is equal to or more than 2.5% but less than 25% and the total consideration for the Transfer is more than HK\$10,000,000, the Transfer is subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Qu Jiguang, Leung Chong Shun and Chow Kwok Wai, being independent non-executive Directors, has been established to advise the Shareholders as to whether the terms of the Transfer Agreement are fair and reasonable so far as the Shareholders are concerned and whether the Transfer are in interest of the Company and the Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on the accuracy of the information and representations contained in this circular and information and facts provided to us by the Company, the Directors and the management of the Company. We have also assumed that all statements of belief and intention made by the Directors in this circular were reasonably made after due enquiry. We have assumed that all statements and representations made or referred to in this circular were true at the time they were made and continue to be true at the date of the EGM. We have no reason to doubt the truthfulness, accuracy and completeness of the information and representations provided to us by the Company, the Directors and management of the Company and have no reason to doubt that any relevant material facts have been withheld or omitted.

We have reviewed, among other things, the published information of the Group, including the prospectus of the Company dated 2 December 2005 (the "Prospectus"), the annual report of the Company for the year ended 31 December 2005 (the "Annual Report"), the valuation report of Xi'an Lijun prepared by 中宇資產評估有限責任公司, an independent qualified valuer in the PRC, the audited financial statements of Xi'an Lijun prepared in accordance with the PRC generally accepted accounting principles ("PRC GAAP") for the two years ended 31 December 2005. In addition, we have reviewed the principal terms of the Transfer Agreement. We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in this letter and to provide a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 (including the notes thereto) of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group nor have we carried out any independent verification of the information supplied.

LETTER OF ADVICE FROM BARITS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Transfer contemplated under the Transfer Agreement, we have considered the following principal factors and reasons:

1. Background to and reasons for the Transfer

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.

Xi'an Lijun, a main operating subsidiary of the Company, is currently owned as to 80% by the Company and is a principal non wholly-owned subsidiary of the Company, while the remaining 20% is held by Rejoy Group. Xi'an Lijun is engaged in the development, manufacture and distribution of pharmaceutical products in the PRC. The production plant of Xi'an Lijun is located in Xi'an City of Shaanxi Province and has a registered capital of RMB210.9 million as at the Latest Practicable Date. According to the Prospectus, Xi'an Lijun is one of the leading pharmaceutical manufacturers in the PRC and produces more than 100 pharmaceutical products (such as in forms of tablets, capsule, granule, injection, powder for injection and lyophilized powder for injection) for the pharmaceutical market in the PRC.

As disclosed in the Prospectus, the Company has the intention to purchase the remaining 20% of Xi'an Lijun from Rejoy Group after the listing of the Shares on the Stock Exchange. As referred to in the Letter from the Board as set out in this circular, the Company entered into the Transfer Agreement on 16 May 2006 with Rejoy Group pursuant to which Rejoy Group agreed to conditionally transfer 20% equity interests in Xi'an Lijun to the Company. Upon completion of the Transfer, Xi'an Lijun will become a wholly-owned subsidiary of the Company. As referred to the Letter from the Board as set out in this circular, the Directors are of the view that the purchase of the remaining 20% equity interests in Xi'an Lijun will provide a good opportunity to the Company to take the full operation benefits from Xi'an Lijun in the pharmaceutical industry in the PRC. In addition, when Xi'an Lijun becomes a wholly-owned subsidiary of the Company, Xi'an Lijun's profits will be fully attributed to the shareholders of the Company.

LETTER OF ADVICE FROM BARITS

The financial results of Xi'an Lijun

Below set out the summary of the audited consolidated profit and loss statement for each of the two years ended 31 December 2005 and audited consolidated balance sheet as of 31 December 2004 and 31 December 2005, prepared in accordance with the PRC GAAP, of Xi'an Lijun:

	Year ended 31 December	
	2005	2004
	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Turnover	882,570	897,997
Gross profit	465,816	469,100
Other gains — net	1,468	-819
Selling and marketing costs	209,820	238,371
General and administrative expenses	108,909	85,583
Finance costs	11,212	7,032
Profit/(Loss) before tax	137,342	137,293
Profit/(Loss) after tax	137,342	114,663
Fixed assets	430,892	425,097
Intangible assets	8,295	3,037
Long term investment	1,134	1,210
Current assets	435,685	443,635
Total assets	876,006	872,979
Current liabilities	304,147	419,981
Long term liabilities	89,806	104,411
Total liabilities	393,953	524,392
Net book value	482,053	348,587

Despite the turnover of Xi'an Lijun for the year ended 31 December 2005 dropped slightly by approximately 1.72% as compared to that of 2004, the net profit after tax for the year ended 31 December 2005 increased to approximately RMB137.34 million from approximately RMB114.66 million for the year ended 31 December 2004, representing an increment of approximately 19.78%. As discussed with the management of the Company, such increase in the net profit after tax was mainly because Xi'an Lijun has obtained approvals in May 2005 from the relevant tax authorities, which is also effective from 1 January 2005, for its entitlement to exemption from enterprise income tax for the first two years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year, details of such have been disclosed in the Annual Report. Also, according to the Annual Report and following our discussion with

LETTER OF ADVICE FROM BARITS

the management of the Company, the decrease in the turnover for the year ended 31 December 2005 was mainly because the national antibiotics market remained sluggish for the year 2005, under the impact of the “Notice on Strengthening Controls on sales of Antibacterial Agents in Retail Pharmacy Stores” (關於加強零售葯店抗菌葯物銷售監管合理用葯的通知) (“No. 289 Document”) issued by the State Food and Drug Administration (“SFDA”) which provides that antibiotics can only be sold by retail drug stores with the prescription of physicians, in addition to the order issued by the National Development and Reform Commission to further reduce the price of antibiotics. However, the Group timely adjusted its sales strategies and adopted a number of measures for stabilising its sales strategies and adopted a number of measures for stabilising its sales to maintain a respectable performance. Based on the financial results of Xi’an Lijun for the two years ended 31 December 2005, Xi’an Lijun was proved to achieve steady income and profit.

The PRC audited consolidated net asset value of Xi’an Lijun as of 31 December 2005 was approximately RMB 482.05 million. As discussed with the management of the Company, the increase of the consolidated net asset value of Xi’an Lijun as of 31 December 2005 to approximately RMB482.05 million from approximately RMB348.59 million as of 31 December 2004 was mainly attributable to the net profits generated in the year ended 31 December 2005.

The prospects of the PRC pharmaceutical industry

As referred to the pages 47 to 48 of the Prospectus, the pharmaceutical industry in the PRC has experienced significant growth in the past few years, the sales revenue generated from 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 RMB126 billion in 1998 to approximately RMB275 billion in 2003, representing an annual compound growth rate of approximately 16.9%.

As advised by the Directors, the pharmaceutical products in the PRC are expected to be favorably affected by (i) improving standard of living in the PRC; (ii) aging population of the PRC; (iii) increasing government spending on public; and (iv) accession of the PRC to WTO. Furthermore, a five-year development plan of the PRC from 2001 to 2005 (the “Tenth Five Year Plan”), in which the PRC government has set out an average annual target growth rate of 12% per year for the pharmaceutical industry as a whole and average annual target growth in profits of pharmaceutical industry of 13% per year, will also provide an optimistic growth and development opportunity for enterprises engaged in the pharmaceutical industry in the PRC.

LETTER OF ADVICE FROM BARITS

By purchasing the remaining 20% equity interest in Xi'an Lijun, the Directors and we believe that the Group will be able to further benefit from the future growth and development prospects arising therefrom.

Overall

Based on various factors discussed above, given (i) the purchase of the remaining 20% equity interests in Xi'an Lijun will provide an opportunity to the Company to take the full operation and financial benefits from Xi'an Lijun, a main operating subsidiary of the Company; (ii) the steady income and profit of Xi'an Lijun for the two years ended 31 December 2005; and (iii) the growth and development prospects of the pharmaceutical industry in the PRC, we are of the view that the Transfer is in the ordinary and usual course of business and is in the interest of the Company and Shareholders as a whole.

2. Terms of Transfer Agreement

Consideration

As referred to the Letter from the Board set out in this circular, pursuant to the Transfer Agreement, the Company will pay a consideration of RMB102,556,452 (equivalent to approximately HK\$99,569,371) to Rejoy Group. As advised by the Directors, the consideration was arrived at after arm's length negotiations between the Company and Rejoy Group with reference to the valuation of Xi'an Lijun at RMB405,874,995.49 as at 31 December 2005 prepared by 中宇資產評估有限責任公司, an independent qualified valuer in the PRC. The valuation was prepared in accordance with the requirement of (Provisional Rules on Transfer of State-owned Property Rights) 《企業國有產權轉讓管理暫行辦法》. The expertise of the valuer is in the valuation of plants and equipment. The valuer has used the cost method in the valuation of Xi'an Lijun. According to the PRC audited consolidated accounts of Xi'an Lijun for the year ended 31 December 2005, the net book value of Xi'an Lijun amounted to approximately RMB482.05 million. As referred to the Letter from the Board set out in this circular, the difference between the valuation and net book value of Xi'an Lijun is mainly attributed to adjustments arising from proposed dividend and provision on staff welfare fund. As confirmed by the PRC legal adviser of the Company, the vendor, is a solely state-owned company in the PRC.

The consideration agreed under the Transfer Agreement represents an approximate 26.34% premium over the valuation of Xi'an Lijun which the Directors consider to be fair and reasonable in view of the growth and development prospects of pharmaceutical industry in the PRC.

LETTER OF ADVICE FROM BARITS

Comparison of price-to-earning ratio (“PER”) and price-to-book ratio (“PBR”) with those of the comparables companies (the “Comparables”)

The consideration represents a PER and PBR of approximately 4.41 and 1.09 times respectively. We have identified the following Comparables for comparison. The Comparables are listed on the main board of the Stock Exchange and are engaged in pharmaceutical industry that are broadly comparable to Xi’an Lijun. Their relevant PER and PBR are as follows:

Comparable (stock code)	Year end (mm/yy)	PER as at the Latest Practicable Date	Latest published audited net asset value per share <i>(Note 1)</i> <i>(HK\$)</i>	PBR as at the Latest Practicable Date
Hua HanBio-Pharmaceutical Holdings Limited (587)	June/2005	10.41	0.77	2
Guangzhou Pharmaceutical Company Limited (874)	Dec/2005	19.29	3.26 <i>(Note 2)</i>	1.40
China Pharmaceutical Group Limited (1093)	Dec/2005	8.94	1.62	0.56
Broad Intelligence International Pharmaceutical Holdings Limited (1149)	Dec/2005	2.60	0.85	0.55
Jiwa Bio-Pharm Holdings Limited (2327)	Mar/2005	5.42	0.37	0.86
Dawnrays Pharmaceutical (Holdings) Limited (2348)	Dec/2005	5.40	0.59 <i>(Note 2)</i>	1.17
China Shineway Pharmaceutical Group Limited (2877)	Dec/2005	15	1.91 <i>(Note 2)</i>	3.04
Long Far Pharmaceutical Holdings Limited (2898)	Mar/2005	60	0.15	3.20
Average		15.88		1.60
Maximum		60		3.20
Minimum		2.60		0.55
Xi’an Lijun	Dec/2005	4.41 <i>(Note 3)</i>		1.09 <i>(Note 4)</i>

Source of data: Bloomberg

LETTER OF ADVICE FROM BARITS

Notes:

1. Based on the latest published audited net asset value and the total number of issued shares of the Comparables as at their respective latest year end date.
2. Based on the exchange rate of HK\$1 = RMB1.03.
3. Based on the consideration and the Company's profit for the year attributable to the minority interest for the year ended 31 December 2005.
4. Based on the consideration and the Group's minority interest as of 31 December 2005.

As shown in the above table, the PER of the Comparables range from approximately 2.60 to 60 times. The PER as represented by the consideration of Xi'an Lijun of approximately 4.41 times is the second lowest amongst all the Comparables and represents a discount to the average of the PER of the Comparables of approximately 72.23%. In terms of PBR, the PBR of the Comparables range from approximately 0.55 to 3.20 times. The PBR as represented by the consideration of Xi'an Lijun of approximately 1.09 represents a discount to the average of the PBR of the Comparables of approximately 31.88%. Therefore, the PER and PBR as represented by the consideration of the Transfer are favorable to the average of those of the Comparables.

Comparison of price-to-earning ratio ("PER") and price-to-book ratio ("PBR") with those of the Company

Each of the PER and PBR of the Company as at Latest Practicable Date was approximately 10.02 and 1.85 times respectively, each of the PER and PBR as represented by the consideration of Xi'an Lijun of approximately 4.41 and 1.09 times represents a discount to their respective PER and PBR of the Company of approximately 55.99% and 41.08%. Therefore, the PER and PBR as represented by the consideration of the Transfer are favorable to those of the Company as at the Latest Practicable Date.

From the date of listing of the Company to the Latest Practicable Date, each of the PER and PBR of the Company ranges from approximately 6.80 to 11.72 times and approximately 1.25 to 2.16 times respectively, each of the PER and PBR as represented by the consideration of Xi'an Lijun of approximately 4.41 and 1.09 times represents a discount to their respective lowest PER and PBR of the Company of approximately 35.15% and 12.80%. Therefore, the PER and PBR as represented by the consideration of the Transfer are favorable to the lowest range of those of the Company since the date of listing of the Company to the Latest Practicable Date.

LETTER OF ADVICE FROM BARITS

Taking into account (i) the PER and PBR represented by the consideration of Xi'an Lijun are lower than the average PER and PBR of the Comparables and fall within the range of each of PER and PBR of the Comparables; (ii) the PER and PBR represented by the consideration of the Transfer are lower than each of their respective ratio of the Company as at the Latest Practicable Date and also below the lowest range of their respective ratio of the Company since the listing of the Company in December 2005 up to the Latest Practicable Date, we consider that the consideration attributable to the Transfer is fair and reasonable despite the consideration under the Transfer Agreement represents an approximate 26.34% premium over the valuation of Xi'an Lijun as of 31 December 2005 and approximate 6.37% premium over the net book value of Xi'an Lijun as of 31 December 2005.

Payment terms and conditions for the Transfer

Pursuant to the Transfer Agreement, the total consideration of the Transfer is RMB102,556,452 (equivalent to approximately HK\$99,569,371), completion of the Transfer is conditional upon a number of conditions precedent, details of which are set out in the Letter from the Board of this circular. The consideration shall be satisfied in full by remittance in Hong Kong Dollars within one month upon obtaining the necessary approvals for the Transfer Agreement from the State-owned Assets Supervision and Administration Commission of Shaanxi Provincial People's Government (陝西省人民政府國有資產監督管理委員會). The Directors' present intention is that such consideration will be wholly funded by bank financing. As advised by the Directors, using bank financing to fund the Transfer is the most suitable means of financing after considering (i) the interest rates for such bank financing will be similar to those of the outstanding loans of the Group as at the Latest Practicable Date; (ii) bank and cash balances are held and reserved to apply in the Group' future plans, details of such are set out in the Prospectus, as well as general workings for daily operating activities; and (iii) the Company has been listed for only a short period of time and it will not be in the best interest of the Shareholders to finance the Transfer through any issue of new equities leading to possible dilution, we therefore concur with the Directors' view in this regard.

Based on the foregoing discussion, we consider that the terms of the Transaction are on normal commercial terms and are fair and reasonable.

3. Financial effects

Earnings

Upon completion of the Transfer, the Company's attributable interest in Xi'an Lijun will increase by 20% from 80% to 100%. Therefore the future profit or loss of Xi'an Lijun attributable to the Group will be increased by approximately 20% following the completion of the Transfer.

LETTER OF ADVICE FROM BARITS

As advised by the Directors, on the basis that (i) Xi'an Lijun has been operating profitably for the two years ended 31 December 2005; and (ii) the pharmaceutical market in the PRC is expected to grow and develop, details of which have been discussed in the paragraph headed "Background to and reasons for the Transfer" above, the Group's earning base will be enhanced upon completion of the Transfer. Nevertheless, it should be noted that such enhancement will be partially offset by the increase in the finance cost arisen from the bank borrowings for the settlement of the consideration attributable to the Transfer.

Net asset value/Net tangible asset value

As confirmed by the Directors, Xi'an Lijun has been a subsidiary of the Company and its results, assets and liabilities will continue to be consolidated into the consolidated financial statements of the Group immediately upon completion of the Transfer. Thus, there is no material change in the consolidated net assets of the Group immediately upon completion of the Transfer.

Upon completion of the Transfer, Xi'an Lijun will become a wholly-owned subsidiary of the Company. Based on the audited results of the Group as of 31 December 2005, the Group has a consolidated net tangible asset (consolidated net assets after deduction of goodwill) of approximately RMB500.73 million. A goodwill would have arisen since the consideration attributable to the Transfer is higher than the net book value of the Group's minority interest as of 31 December 2005 and the amounts of goodwill would be equal to the difference between the consideration attributable to the Transfer and the net book value of the Group's minority interest as of 31 December 2005. As a result, the net tangible asset would be decreased by the same extent. Such goodwill will not be amortised but subject to annual impairment if indicated.

Gearing

Based on the audited results of the Group as of 31 December 2005, the gearing ratio (calculated as total bank borrowings over total equity after deduction of minority interest) is approximately 22.57%. Since the entire consideration will be funded by bank financing and , the gearing ratio of the Group would thus be increased, assuming the existing bank loans will not be repaid at the time the Group obtains the bank financing to fund the Transfer. The Directors consider that using bank financing as a means to fund the Transfer is not unusual in the market and so long as such Transfer is able to broaden the Group's revenue base and provide a good opportunity for the Company to enjoy the full operation and financial benefit from Xi'an Lijun.

LETTER OF ADVICE FROM BARITS

CONCLUSION

Having considered the above principal factors and reasons, in particular,

- (i) the purchase of the remaining 20% equity interests in Xi'an Lijun will provide an opportunity to the Company to take the full operation and financial benefits from Xi'an Lijun, a main operating subsidiary of the Company with steady income and profit for the two years ended 31 December 2005;
- (ii) the PER and PBR as represented by the consideration of the Transfer are generally favorable to those of the Comparables and the Company; and
- (iii) the positive effect on the earning base of the Group,

we consider that the Transfer is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the terms of the Transfer Agreement are normal commercial terms and fair and reasonable so far as the Shareholders are concerned. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Transfer Agreement.

Yours faithfully,

For and on behalf of

Barits Securities (Hong Kong) Limited

Terence Hong

Alfred Wong

Managing Director

Executive Director

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular 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 herein misleading.

2. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

3. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Long positions in the Shares

Name of Director	Capacity	Number of shares held	Approximate % of the issued share capital of the Company
Mr. Wu Qin	Interest of controlled corporation	22,344,000	7.69

Note:

These shares were 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Interest or short position of entities (other than a Director or chief executive of the Company) in the Shares which is discloseable under Divisions 2 and 3 of the SFO

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or, who is, directly or indirectly, interested in 5% 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:

Long positions in the Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate % of the issued share capital of the Company
Prime United Industries Limited (<i>Note 1</i>)	Beneficial owner	123,984,000	42.68
Victory Rainbow Investment Limited	Beneficial owner	58,300,000	20.07

Name of Shareholder	Capacity	Number of Shares held	Approximate % of the issued share capital of the Company
Grand Ocean Shipping Company Ltd. (Note 2)	Interest of controlled corporation	58,300,000	20.07
Ms. Chen Lin-Dong (Note 2)	Interest of controlled corporation	58,300,000	20.07
Mr. Xu Ming (Note 2)	Interest of controlled corporation	58,300,000	20.07
Success Manage International Limited	Beneficial owner	22,344,000	7.69
Ms. Zhang Minfang (Note 3)	Interest of spouse	22,344,000	7.69
Japan Trustee Services Bank, Ltd.	Trustee	15,016,000	5.17

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. Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of Prime United Industries Limited.
- (2) Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia, which in turn is owned as to 50% by Ms. Chen Lin-Dong and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Chen Lin-Dong and Mr. Xu Ming is deemed to be interested in the Shares held by Victory Rainbow Investment Limited.

- (3) Success Manage International Limited is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, Mr. Wu Qin and his spouse, Ms. Zhang Minfang, are deemed to be interested in all the Shares held by Success Manage International Limited. Mr. Wu Qin, Mr. Wu Zhihong and Mr. Huang Chao, the executive Directors, are also directors of Success Manage International Limited.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any persons who has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the directors of the Group and his associates are considered by the Company to have interests in business which compete with, or might compete with, either directly or indirectly, with the business of the Group, other than those business in which such directors have been appointed to represent the interests of the Company and/or other members of the Group.

5. DIRECTORS' INTEREST IN SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years.

As at the Latest Practicable Date, none of the Directors has entered into or is proposing to enter into a service contract with any member of the Group which may be terminated by the relevant member of the Group within one year without payment of any compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2005, the date of which the latest published audited consolidated financial statements of the Group were made up.

No contract or arrangement in which a Director of the Company is materially interested and which is significant in relation to the business of the Group subsisted as at the Latest Practicable Date.

7. EXPERTS' QUALIFICATIONS AND CONSENT

- (a) The following are the qualifications of the experts who have given their opinion or advice which is contained in this circular:

Name	Qualifications
Barits	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
中宇資產評估有限責任公司	a qualified valuer in the PRC

- (b) As at the Latest Practicable Date, each of the experts mentioned in paragraph (a) above did not have any shareholding in the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group.
- (c) Each expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and opinion and reference to its name in the form and context in which they appear.
- (d) The letter and recommendation given by Barits are given as of the date of this circular for incorporation herein.
- (e) Each expert has no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

The articles of association of the Company provides that a resolution put to the vote of a meeting shall be decided on a show of hands unless (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:

- (a) by the chairman of such meeting; or
- (b) by 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

- (c) by 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 representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by 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 conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (e) by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting as required by the Listing Rules.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

10. GENERAL

- (a) The registered office of the Company is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.
- (b) The principal address of the Company in Hong Kong is Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) Mr. Lam Yiu Por is the qualified accountant and company secretary of the Company. He is a member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants.
- (e) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the Company's principal place of business in Hong Kong at Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except for public holidays) up to and including the date of the EGM:

- (a) the Transfer Agreement;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out in this circular;
- (c) the letter issued by Barits to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;
- (d) the valuation report of Xi'an Lijun as at 31 December 2005 prepared by 中宇資產評估有限責任公司 dated 12 May 2006;
- (e) the audited accounts of Xi'an Lijun for the years of 2004 and 2005; and
- (f) the letters of consent from the experts referred to in the paragraph headed "Experts Qualifications and Consent" of this appendix.

NOTICE OF EGM



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)

(stock code: 2005)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Lijun International Pharmaceutical (Holding) Co., Ltd. (the “Company”) will be held at Office 1606, 16th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 23 June 2006 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an Ordinary Resolution:

“**THAT** the Transfer Agreement (such terms shall have the meaning as defined in the circular to the shareholders of the Company dated 5 June 2006) and the transactions contemplated thereto be and are hereby approved and **THAT** the directors of the Company be and are hereby authorized to do, approve and transact all such acts and things as they may in their discretion consider necessary or desirable in connection therewith.”

By order of the Board

Lijun International Pharmaceutical (Holding) Co., Ltd.

Lam Yiu Por

Company Secretary

Hong Kong, 5 June 2006

Head Office and

Principal Place of Business in Hong Kong

Office 1606, 16th Floor

Office Tower, Convention Plaza

1 Harbour Road, Wanchai

Hong Kong

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and to vote in his stead. A proxy need not be a shareholder of the Company.

NOTICE OF EGM

2. Where there are joint holders of any share in the issued share capital of the Company (“Share”), any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.
3. In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney must be deposited with the Company’s branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting as the case may be or, in the case of poll taken subsequently to the date of the meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll.
4. The Ordinary Resolution as set out above will be determined by way of a poll.
5. As at the date of this announcement, the Board comprises Wu Qin, Wu Zhihong, Huang Chao, Xie Yunfeng and Sun Xinglai as executive Directors, Liu Zhiyong as non-executive Director and Qu Jiguang, Leung Chong Shun and Chow Kwok Wai as independent non-executive Directors.