THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other appropriate independent professional advisers.

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.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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)

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL AND THE SHAREHOLDER'S LOAN OF NEW ORIENT INVESTMENTS LIMITED

Financial adviser to Lijun International Pharmaceutical (Holding) Co., Ltd.

Goldbond Capital (Asia) Limited

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

First Shanghai Capital Limited

A letter from the Board is set out on pages 4 to 20 of this circular. A letter from the Independent Board Committee is set out on page 21 of this circular.

A letter from First Shanghai Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 32 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong at 10:00 a.m. on 26 June 2007 is set out on pages 157 to 158 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

11 June 2007

CONTENTS

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

"Acquisition"	the proposed acquisition by the Company of the Sale Shares and the Shareholder's Loan pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional agreement dated 25 March 2007 entered into among the Company, the Vendor and CPCL for the sale and purchase of the Sale Shares and the Shareholder's Loan
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	any day(s) (other than Saturday) on which commercial banks in Hong Kong are generally open for business
"Cashier's Orders"	cashier's orders in amounts of HK$65,000,000 and HK$5,000,000 in favour of Bowley Limited issued by licensed banks in Hong Kong provided by the Company, which were held in escrow by the Escrow Agent
"Charged Shares"	10,000,000 Consideration Shares to be issued to CPCL
"Company"	Lijun International Pharmaceutical (Holding) Co., Ltd., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition Agreement
"Completion Date"	the date on which the Completion takes place
"Consideration"	consideration for the sale and purchase of the Sale Shares and the Shareholder's Loan pursuant to the Acquisition Agreement
"Consideration Shares"	110,000,000 Shares to be issued by the Company to CPCL for partial payment of the Consideration on Completion
"CPCL"	China Pharmaceutical Company Limited, a private company incorporated in Samoa, being the guarantor of the Vendor under the Acquisition Agreement

"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting to be convened in connection with the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement
"Enlarged Group"	the Group as enlarged as a result of Completion and the New Orient Group becoming a subsidiary of the Company
"Escrow Agent"	Goldbond Capital (Asia) Limited
"Escrow Agreement"	the escrow agreement dated 25 March 2007 entered into between, among others, the Company and the Vendor regarding the escrow arrangement of the Cashier's Orders with the Escrow Agent
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the board of Directors formed for the purpose of advising the Independent Shareholders in connection with the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement
"Independent Shareholders"	the Shareholders other than Mr. Qu and his associates
"Independent Third Party(ies)"	any person(s) or company(ies), to the best of the Directors' knowledge, information and belief having made all reasonable enquires, are third parties independent of the Company in accordance with the Listing Rules
"Last Trading Day"	23 March 2007, being the last trading day prior to the entering into of the Acquisition Agreement
"Latest Practicable Date"	7 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Long Stop Date"	30 June 2007 (or such later date as may be agreed between the Company, the Vendor and Bowley Limited)
"Mr. Qu"	Mr. Qu Jiguang, being an independent non-executive Director and the controlling shareholder of the Vendor
"New Orient"	New Orient Investments Limited, a company incorporated in Samoa on 26 October 2004 with limited liability
"New Orient Group"	New Orient and its subsidiary
"No. 4 Pharm"	石家庄四葯有限公司 (Shijiazhuang No. 4 Pharmaceutical Co. Ltd.), a company established in the PRC with limited liability on 28 June 1994
"PRC"	the People's Republic of China which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	the total issued shares of New Orient as at the date of the Acquisition Agreement
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shares"	ordinary shares of HK$0.10 each in the share capital of the Company
"Shareholders"	the holders of the Shares
"Shareholder's Loan"	an interest-free shareholder's loan of not more than HK$11,284,200 owing by New Orient to the Vendor immediately before Completion
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	CMP Group Limited
"%"	per cent.

Note: For the purpose of this circular (excluding the accountants' report set out in Appendix II to this circular), unless otherwise stated, all foreign currency amounts have been translated into Hong Kong dollars at the rate of HK$1:RMB1 or HK$7.80=US$1.

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:
Mr. Wu Qin *(Chairman)*
Mr. Wu Zhihong
Mr. Huang Chao
Mr. Xie Yunfeng
Ms. Sun Xinglai
Mr. Wang Xian Jun

Non-executive Director:
Mr. Liu Zhiyong

Independent non-executive Directors:
Mr. Qu Jiguang
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business:
Office 2809, 28th Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

11 June 2007

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
AND THE SHAREHOLDER'S LOAN OF
NEW ORIENT INVESTMENTS LIMITED**

INTRODUCTION

On 30 March 2007, the Board announced that the Company entered into the Acquisition Agreement with the Vendor and CPCL pursuant to which the Company has agreed to purchase and the Vendor has agreed to sell the entire interest in and a shareholder's loan of New Orient.

The Acquisition constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules. As Mr. Qu is an independent non-executive Director and the controlling shareholder of the Vendor, the entering into of the Acquisition Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition Agreement is therefore subject to the approval of the Independent Shareholders at the EGM.

The Independent Board Committee, comprising Mr. Leung Chong Shun and Mr. Chow Kwok Wai, the independent non-executive Directors, has been established by the Company to consider the terms of the Acquisition Agreement and advise the Independent Shareholders on, among others, the Acquisition and the issue of the Consideration Shares. First Shanghai Capital Limited, an independent financial adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

THE ACQUISITION AGREEMENT

Date

25 March 2007

Parties

The Vendor (as the vendor)
The Company (as the purchaser)
CPCL (as the guarantor of the Vendor)

The Vendor is owned as to about 55.14% by CPCL, which is beneficially owned as to about 72.93% by Mr. Qu and as to about 27.07% by 39 other shareholders. The remaining interests of the Vendor are owned as to about 17.48% by Bowley Limited, which is in turn wholly-owned by Mr. Ding Ergang and as to about 27.38% by two other Independent Third Parties.

Mr. Qu is an independent non-executive Director. Mr. Ding Ergang and Bowley Limited are Independent Third Parties.

Subject matter of the Acquisition

The Sale Shares and the Shareholder's Loan

Consideration

The Consideration has been arrived at after arm's length negotiations between the parties and is equivalent to the aggregate sum of (i) 7.5 times the audited profit attributable to the shareholders of the New Orient Group (excluding any profit generated or loss incurred in connection with foreign exchanges) for the year ended 31 December 2006; and (ii) any profit generated or loss incurred in connection with foreign exchanges for the year ended 31 December 2006. However, in any event, the Consideration shall not exceed HK$510 million. Based on the accountants' report of New Orient, the aggregate sum of (i) and (ii) as aforementioned exceeds HK$510 million (RMB translated into Hong Kong dollars at the rate of HK$1:RMB0.98 as at the Latest Practicable Date), and therefore the Consideration is HK$510 million. Given most of the pharmaceutical companies listed in Hong Kong were traded at price-earning multiples of higher than 7.5 times, the Directors consider 7.5 times the audited net profit as the basis of Consideration to be fair and reasonable.

The Consideration for the purchase of the Sale Shares and the Shareholder's Loan will be satisfied by the Company in the following manner upon Completion:

1. 17.48% of the Consideration shall be paid by the Company by the cashier's orders issued by licensed banks in Hong Kong to Bowley Limited, and the Cashier's Orders shall be available on the date of signing of the Acquisition Agreement, which is held in escrow (details of which are set out below);

2. HK$319,000,000 shall be paid by the Company by way of the allotment and issue of 110,000,000 Consideration Shares to CPCL; and

3. the balance of the Consideration shall be paid by the Company in cash to CPCL.

The disposal of the Sale Shares and the Shareholder's Loan by the Vendor to the Company and the direct settlement of the Consideration to CPCL and Bowley Limited have been approved by all shareholders of the Vendor in a shareholders' meeting of the Vendor held on 22 March 2007. To the best knowledge of the Company, it was a commercial decision amongst the shareholders of the Vendor that no Consideration will be directed to these two Independent Third Parties.

Upon signing of the Acquisition Agreement, the Vendor, the Company, Bowley Limited and the Escrow Agent entered into the Escrow Agreement. Pursuant to the Escrow Agreement, each of the Company, the Vendor and Bowley Limited has agreed that the Cashier's Orders in favour of Bowley Limited would be held in escrow by the Escrow Agent in accordance with the terms of the Escrow Agreement. Upon receipt by the Escrow Agent of the written completion notice issued by the Company and the Vendor, the Escrow Agent will deliver the Cashiers' Orders to Bowley Limited on Completion, subject to at least 3 Business Days prior written notification being given to the Escrow Agent (i) as to the Long Stop Date if such date is not 30 June 2007; and (ii) as to the time and date of Completion, in accordance with the terms of the Escrow Agreement. In the event that the Escrow Agent does not receive the aforesaid written completion notice on or before the third day after the Long Stop Date, the Escrow Agent will return the Cashier's Orders to the Company. In the event that 17.48% of the Consideration to be paid to the Vendor payable under the Acquisition Agreement on Completion is in excess or falls short of HK$70,000,000, the Company undertakes to pay the excess to Bowley Limited as directed and authorised by the Vendor or Bowley Limited undertakes to repay the shortfall to the Company, in both cases, by way of cashier's order on Completion. The Company entered into the Escrow Agreement with, amongst others, the Escrow Agent after commercial negotiations with the Vendor in connection with the Acquisition Agreement. The Directors consider that the appointment of the Escrow Agent is in the interests of the Company and the Shareholders as a whole.

The Company currently intends to finance the Acquisition partly by its internal resources and/or bank borrowings and partly by capital market financing as the Directors consider appropriate. The Directors consider that the Acquisition is on normal commercial terms and is in the ordinary course of business of the Company. The Directors also consider that the terms of the Acquisition (including the basis of Consideration), which is determined on an arm's length basis, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Consideration Shares represent about 37.9% of the existing issued share capital of the Company and about 27.5% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares. The Consideration Shares will be issued to CPCL at a price of HK$2.90 per Share (without adjustments), which represents:

1. a discount of about 5.2% to the closing price of about HK$3.06 per Share quoted on the Stock Exchange on the Last Trading Day;

2. a discount of about 5.8% to the average of the closing price of about HK$3.08 per Share quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;

3. a discount of about 6.1% to the average of the closing price of about HK$3.09 per Share quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

4. a premium of about 67.6% over the audited net asset value of about HK$1.73 per Share as at 31 December 2006 based on the figures stated in the 2006 annual report of the Company; and

5. a discount of about 40.8% to the closing price of about HK$4.9 per Share quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares will rank equally in all respects with the issued Shares as at the relevant date of allotment. The Company will apply to the Stock Exchange for the listing of, and permission to deal in the Consideration Shares on the Stock Exchange.

The Consideration Shares shall be subject to a lock-up period of 12 months from Completion, during which the Consideration Shares shall not be transferred, sold, lent, charged, mortgaged, otherwise used as security or otherwise encumbered, except that out of the Consideration Shares, 10,000,000 Shares will be placed with the Company as security for the profit guarantee mentioned below.

Conditions Precedents

The Acquisition Agreement is conditional upon, among other things, the following conditions being fulfilled by the Company:

1. the passing by the Independent Shareholders of the resolution approving the Acquisition, the issuance of the Consideration Shares and transactions contemplated under the Acquisition Agreement at the EGM; and

2. the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares.

No conditions above could be waived. If conditions are not fulfilled on or before 30 June 2007 or such other date as the Vendor and the Company may agree in writing, the Acquisition Agreement shall forthwith become null and void and cease to have any effect whatsoever (save for any antecedent breach).

Completion

Completion shall take place within three Business Days immediately after all the conditions under the Acquisition Agreement have been fulfilled but the Completion Date may be extended for a further period of 14 days by either party in the event the other party fails to fulfill its obligations under the Acquisition Agreement.

Profit Guarantee and Share Charge

The Vendor and CPCL have guaranteed to the Company that the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007, which shall be calculated in accordance with the accounting principles, standards and normal practices adopted by the auditors appointed by the Company in preparing the audited financial information of the New Orient Group for the year ending 31 December 2007, will not be less than RMB70,000,000. Such profit guarantee was arrived at between the parties after arm's length negotiations after taking into account the results of the New Orient Group for the two years ended 31 December 2006 and the Directors consider that such profit guarantee provided by the Vendor and CPCL would insure the return on the Group's investment in the New Orient Group for the year ending 31 December 2007 and is in the interests of the Company and its shareholders as a whole.

The Vendor has agreed and will procure CPCL to place 10,000,000 Consideration Shares with the Company (together with the relevant duly signed instrument of transfer, board minutes and power of attorney) as security for the profit guarantee above. In the event that the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007 is less than RMB70,000,000, the Vendor agreed that the Company, at any time and date after 31 December 2007, sell or dispose of the Charged Shares in open market, and the proceeds of which will be used to compensate the shortfall between the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007 and RMB70,000,000 on a dollar-for-dollar basis. If the proceeds from the sale of the Charged Shares is not sufficient to cover the shortfall, CPCL will compensate the remaining of the shortfall to the Company by cash. If the proceeds from the sale of the Charged Shares is in excess of such shortfall, the Company will refund the excess of the shortfall to CPCL.

The Company will comply with the requirements under Rule 14A.57 that if the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007 is less than RMB70,000,000 and will publish an announcement in the newspapers. The Company will also include details in the next published annual report and accounts, in which the independent non-executive Directors will also provide an opinion as to whether Mr. Qu has fulfilled its obligations under the abovementioned profit guarantee.

IMPACT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The effects on the shareholding structure of the Company taking into account the issue of the Consideration Shares are as follows:

	Shareholdings of the Company before the issue of the Consideration Shares		After the issue of the Consideration Shares and before completion of the placing down of the Shares by Success Manage International Limited		After the issue of the Consideration Shares and completion of the placing down of the Shares by Success Manage International Limited *(Note 8)*	
Shareholders	**Shares**	%	**Shares**	%	**Shares**	%
Controlling Shareholder and its concert parties:						
Prime United Industries Limited *(Notes 1 & 3)*	123,984,000	42.68%	123,984,000	30.96%	123,984,000	30.96%
Success Manage International Limited *(Note 2)*	22,344,000	7.69%	22,344,000	5.58%	2,657,000	0.66%
Fame World Investments Limited *(Notes 3 & 4)*	2,499,000	0.86%	2,499,000	0.62%	2,499,000	0.62%
Flying Success Investments Limited *(Notes 3 & 5)*	1,738,000	0.60%	1,738,000	0.43%	1,738,000	0.43%
Bondwide Trading Limited *(Notes 3 & 6)*	1,197,000	0.41%	1,197,000	0.30%	1,197,000	0.30%
Sub-total	151,762,000	52.24%	151,762,000	37.89%	132,075,000	32.97%
Other Shareholders:						
Grand Ocean Shipping Limited *(Note 7)*	58,300,000	20.07%	58,300,000	14.56%	58,300,000	14.56%
CPCL	–	0.00%	110,000,000	27.47%	110,000,000	27.47%
Public Shareholders	80,438,000	27.69%	80,438,000	20.08%	100,125,000	25.00%
Sub-total	138,738,000	47.76%	248,738,000	62.11%	268,425,000	67.03%
Total	**290,500,000**	**100.00%**	**400,500,000**	**100.00%**	**400,500,000**	**100.00%**

Notes:

(1) Prime United Industries Limited is held as to about 2.43% by Mr. Wu Qin, an executive Director, as to about 2.43% by Mr. Wu Zhihong, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 4% by Ms. Han Yamei, a member of the management of Xi'an Lijun Pharmaceutical Co., Ltd（西安利君製藥有限責任公司）("Xi'an Lijun") and as to about 84.73% by Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yumei who jointly hold such shares on trust for 4,965 individuals who are present and former employees or their respective estates of Xi'an Lijin and Rejoy Group Limited Liability Company（利君集團有限責任公司）("Rejoy Group"). Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of the Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by Shaanxi Pharmaceutical Company（陝西省醫藥總公司）, a state-owned enterprise under the direct supervision of the Shaanxi Provincial Government.

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

(3) Prime United Industries Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited were controlling shareholders of the Company as stated in the prospectus of the Company dated 2 December 2005.

(4) 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"), all of whom are beneficial shareholders of Xi'an Combel Pharmaceutical Co., Ltd.（西安康拜爾製藥有限公司）("Xi'an Combel"). Newtronic is held as to 50% by Mr. Shing Ting Chun and 50% by Ms. Cheung Ming Man. 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.

(5) 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 Enterprise Co., Ltd.（深圳市金活實業有限公司）("Shenzhen Jinhuo"). 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.

(6) 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 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）. 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.

(7) Grand Ocean Shipping Company Limited, 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.

(8) Please refer to the section headed "Maintenance of the listing status of the Shares" below for details of the placing down of the Shares by Success Manage International Limited.

Prime United Industries Limited, Success Manage International Limited, Triuniverse Group Limited, Fame World Investments Limited, Flying Success Investments Limited and Bondwide Trading Limited are acting in concert with each other in holding the Shares pursuant to The Code on Takeovers and Mergers owning in aggregate about 53.53% shareholding in the Company as at the date of the Acquisition Agreement. Upon completion of the Acquisition and the placing down of the Shares by Success Manage International Limited (details are set out in the section headed "Maintenance of the listing status of the Shares" below), Prime United Industries Limited and its concert parties will own about 32.97% shareholding in the Company and will continue to control the Board. Therefore, the Directors consider that there is no change in control of the Company.

INFORMATION ON THE NEW ORIENT GROUP

New Orient is an investment holding company incorporated in Samoa on 26 October 2004 with limited liability and its sole subsidiary, No. 4 Pharm, is principally engaged in the production and sale of human pharmaceuticals, and infusion pharmaceuticals are its principal human pharmaceutical products. Products produced and sold by No. 4 Pharm are human infusion pharmaceuticals and other human pharmaceuticals including western drugs and traditional Chinese medicines and are sold under the brand name of "石門" ("Shimen").

Infusion pharmaceuticals were mostly sold to public hospitals through the collective tender process as required by the PRC medical regulations. The New Orient Group either tenders directly or collaborates with its distributors to participate in these tenders. Similar to infusion pharmaceuticals, sales of prescriptive human pharmaceuticals to public hospitals are also mostly conducted through the collective tender process.

The table below sets forth a summary of the audited consolidated income statement and the balance sheet of New Orient prepared in accordance with Hong Kong GAAP for the two years ended 31 December 2006 and as at 31 December 2005 and 31 December 2006 respectively:

	For the year ended 31 December	
RMB' 000	**2005**	**2006**
Turnover	321,661	318,544
Profit before taxation and extraordinary items	63,431	67,058
Profit after taxation and extraordinary items	63,431	67,058

	As at 31 December	
	2005	**2006**
Total asset value	379,226	438,433
Net asset value	79,252	148,771

As at 31 December 2006, the Shareholder's Loan owing by New Orient to the Vendor amounted to RMB76,240,000. To the best knowledge of the Directors that (i), the Shareholder's Loan was advanced by the Vendor to New Orient for the acquisition of No. 4 Pharm in December 2004; (ii) New Orient, the Vendor and CPCL will enter into an agreement before Completion that New Orient will settle part of the Shareholder's Loan with the Vendor by offsetting the amount due from the ultimate holding company of No. 4 Pharm (which increased from RMB 29,410,000 as at 31 December 2006 to RMB 64,956,000 as at the Latest Practicable Date); and (iii) the remaining balance of the Shareholder's Loan will not be more than HK$11,284,200 upon Completion.

BUSINESS REVIEW AND MANAGEMENT DISCUSSION AND ANALYSIS OF THE NEW ORIENT GROUP

The New Orient Group is composed of New Orient Investments Limited and its wholly-owned PRC subsidiary, No. 4 Pharm, and New Orient is wholly-owned by the Vendor. The New Orient Group is principally engaged in the manufacturing and selling of pharmaceutical products in the PRC. During the relevant periods, the New Orient Group did not acquire, hold or dispose of any significant investment.

Employees of the New Orient Group are mainly resided in the PRC and are entitled to salaries, wages, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits and staff welfare in the period in which the associated services are rendered. Pursuant to the relevant labour rules and regulations in the PRC, No. 4 Pharm participates in a defined contribution retirement scheme. The New Orient Group has 1,117, 1,101 and 1,154 employees for the three years ended 31 December 2006 and incurred total staff costs of RMB31,146,000, RMB28,844,000 and RMB33,189,000 respectively.

The New Orient Group's net current liabilities amounted to RMB141,155,000, RMB115,524,000 and RMB117,604,000 as at 31 December 2004, 2005 and 2006 respectively. The New Orient Group recorded a net cash inflow from operating activities of RMB38,821,000, RMB28,933,000 and RMB51,019,000 for the three years ended 31 December 2006. For the same period, the New Orient Group had a net cash outflow from investing activities of RMB37,795,000, RMB55,441,000 and RMB61,663,000 respectively. The New Orient Group also recorded a net cash inflow/(outflow) from financing activities of RMB97,431,000, RMB(60,298,000) and RMB10,834,000 respectively. The New Orient Group had an increase/ (a decrease) in cash and cash equivalent of RMB98,457,000, RMB(86,806,000) and RMB190,000 for the three years ended 31 December 2006 respectively.

The New Orient Group has been able to meet its working capital needs with capital generated from operations and fixed rate banking facilities dominated in RMB pledged with the New Orient Group's property and corporate guarantees from a former holding company and a fellow subsidiary. The New Orient Group's gearing ratio, which represents the ratio of shareholder's loan plus bank loans to total equity, was improved from about 1,527% to about 230% and further reduced to about 132%, during the relevant periods. No hedging activity was conducted by the New Orient Group.

As most of the New Orient Group's monetary assets and liabilities are denominated in RMB and the New Orient Group conducts its business transactions also principally in RMB, the exchange rate risk of the New Orient Group is not significant, and accordingly the New Orient Group does not employ any financial instruments for hedging purposes.

The Directors have carried out a detailed review of the cash flow forecast of the New Orient Group for the period ending 30 June 2008. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the New Orient Group during such period.

Business Review

The following is a discussion of the results of the operations of the New Orient Group for the three years ended 31 December 2006. The following discussion should be read in conjunction with the financial information and related notes and other financial figures in the accountants' report of the New Orient Group, the text of which is set forth in Appendix II to this circular.

For the year ended 31 December 2006

In 2006, the New Orient Group's turnover was slightly decreased by 1.0% mainly due to one of the four production lines for glass bottles had undergone regular GMP inspection and therefore the production had been suspended for half a year that reduced the sales quantity of glass bottles. The New Orient Group started focusing on expanding the sales of the plastic bottles and non-PVC plastic bag infusion pharmaceuticals in 2004 and 2005 respectively, which contributed to the New Orient Group's turnover and alleviated the effect of the decrease in turnover caused by the sales quantity of glass bottles.

The sales volume of infusion pharmaceuticals was decreased significantly by about 9.0% from 168,669,000 units to 153,475,000 units mainly because of the decrease in sales of glass bottle infusion pharmaceutical by 22,656,000 units or about 17.8% during the year. However, at the same time, turnover of non-PVC plastic bag infusion pharmaceuticals, as a popular product type, has increased by about 663% in terms of the sales volume due to higher quality protection and easy handle in nature.

The average product unit selling price of glass bottle infusion pharmaceuticals rebounded by 11.0% or RMB0.15 per unit during the year as it was dropped to an extremely low level in the past two years. Product unit selling price of plastic bottle infusion pharmaceuticals decreased by RMB0.08 per unit or 3.0% in this year because of (i) the decrease in their production costs which enabled the New Orient Group to adjust the product prices in order to maintain or increase the competitiveness of those products in the market; and (ii) the intense market competition. As the non-PVC plastic bag infusion pharmaceuticals are newly introduced product, the unit prices could be maintained at a higher level throughout the year.

The production unit cost and gross profit of the infusion pharmaceuticals maintained steady during the year as there was no material change noted in the cost of production materials.

The selling and distribution expenses encountered a decrease of about 7.9% compared to 2005 because of the fast expansion in 2005, and the New Orient Group got a better control on the advertising expenses and marketing expenses since there was no large scale promotion activity during the year.

During the year, the administrative expenses were steadily increased by about 6.4%.

The net profit of the New Orient Group was increased by about 5.7% during the year.

Liquidity and Cashflow Resources

Borrowings

The non-trade indebtednesses of the New Orient Group as at 31 December 2006 were the RMB120.6 million short-term loans from financial institutions and the shareholder's loan due to the immediate holding company amounted to about RMB76.2 million.

Contingent liabilities

No material contingent liability other than those set forth in Note 32 of Appendix II to this circular was noted as at 31 December 2006.

Pledge of assets

The New Orient Group pledged land use right, buildings and machinery, and bank deposits of about RMB21.1 million, RMB175.8 million and RMB7.5 million respectively as at 31 December 2006 to secure certain credit facilities granted.

For the year ended 31 December 2005

In 2005, the New Orient Group's turnover was increased significantly by about RMB91.2 million or about 39.6% due to the strong market demand for its products and increase in production capacities and product varieties during the year, resulting in a significant increase in the profit for the year ended 31 December 2005. During the year, the New Orient Group introduced non-PVC plastic bag infusion pharmaceuticals.

The increase in sales volume was mainly attributable to the surge in sales of glass bottles and plastic bottle infusion pharmaceuticals during the year.

The average product unit selling price of glass bottle infusion pharmaceuticals had no material change. Product unit selling price of plastic bottle infusion pharmaceuticals decreased slightly in this year because of (i) the decrease in their production costs which enabled the New Orient Group to adjust the product prices in order to maintain or increase the competitiveness of those products in the market; and (ii) the intense market competition. As the non-PVC plastic bag infusion pharmaceuticals are newly introduced products, the unit prices could be set at a higher level throughout the year.

The gross profit increased significantly in proportion to the increase in turnover for the year while the unit production cost of the infusion pharmaceuticals were steady during the year as there was no material change noted in the cost of production materials.

The selling and distribution expenses encountered significant increase of about 62.7% as the New Orient Group focused on sales distribution, advertising and marketing activities to promote the New Orient Group's products in which non-PVC plastic bag infusion pharmaceuticals were introduced during the year.

The administrative expenses also increased, which is in line with the expansion of the New Orient Group's operations during the year.

Liquidity and Cashflow Resources

Borrowings

The non-trade indebtednesses of the New Orient Group as at 31 December 2005 were the RMB73.0 million short-term loans and RMB30.0 million long-term loan from financial institutions and the Shareholder's Loan due to the immediate holding company amounted to about RMB79.3 million.

Contingent liabilities

No material contingent liability other than those set forth in Note 32 of Appendix II to this circular was noted as at 31 December 2005.

Pledge of assets

The New Orient Group pledged land use right, buildings and machinery, and bank deposits of about RMB21.6 million, RMB141.6 million and RMB7.1 million respectively as at 31 December 2005 to secure certain credit facilities granted.

For the year ended 31 December 2004

In 2004, the New Orient Group's turnover was about RMB230.4 million, and due to the inefficiency in capturing the first year expansion, the net profit was only about RMB29.0 million.

The selling and distribution expenses was about RMB39.0 million due to the fast expansion of sales and the fact that the New Orient Group spent more on advertising and marketing activities to promote the New Orient Group's products.

Liquidity and Cashflow Resources

Borrowings

The non-trade indebtednesses of the New Orient Group as at 31 December 2004 were the RMB101.4 million short-term loans and RMB30.0 million long-term loan from financial institutions and about RMB86.9 million Shareholder's Loan from the immediate holding company.

Contingent liabilities

No material contingent liability other than those set forth in Note 32 of Appendix II to this circular was noted as at 31 December 2004.

Pledge of assets

The New Orient Group pledged land use right, buildings and machinery, and bank deposits of about RMB22 million, RMB101 million and RMB4.4 million respectively as at 31 December 2004 to secure certain credit facilities granted.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is one of the leading pharmaceutical manufacturers in the PRC, and 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.

As stated in the prospectus of the Company dated 2 December 2005, 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 prescriptive medicines.

As stated in the 2005 annual report of the Company, antibiotics products will remain the focal sale products of the Company; however, in the meantime, the Company will devote to the development of non-antibiotics medicines and non-prescriptive products to continue enhancing its product mix and reinforcing its efforts to develop value-added end products. In view of the strategy to enhance its product mix, the Directors believe that the products of the New Orient Group are complementary to the products of the Group and thereby enhancing the product mix of the Group. The Directors also consider that the Acquisition will enhance the distribution network of the Group's products as well as enlarge the earnings base of the Group. In view of the above, the Directors consider the Acquisition to be in line with the strategy of the Group.

FINANCIAL EFFECTS OF THE ACQUISITION AGREEMENT

As stated in the unaudited pro forma financial information of the Enlarged Group, the consolidated net asset value of the Group shall increase by RMB319,000,000 as the assets and liabilities of the New Orient Group will be consolidated into the Group's accounts and will form part of the assets and liabilities of the Enlarged Group as at the Completion Date.

The New Orient Group recorded revenue of RMB230,422,000, RMB321,661,000 and RMB318,544,000 for the three years ended 31 December 2004, 2005 and 2006 respectively. The Directors consider that the Acquisition will have a positive effect on the Group's earnings by providing an additional income source.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As stated in the 2006 annual report of the Company, the Company expects to totally change its situation of excessively relying on antibiotics products. Following the completion of the acquisition of No. 4 Pharm, the product portfolio will be rapidly diversified, and infusion products and Chinese medicine products will account for a significant contribution to the total sales and profit of the Group. The new product development, management and leveraging the supplementary advantages of the sales network of the two subsidiaries will be the focal work of the Company to promote fast development of the Enlarged Group.

It is still the Company's objective to maintain the Company's leading position in Macrolide antibiotics. The Directors also plan to take multiple measures to expand the market share of Lijunsha products such as increasing the product categories of Paiqi series in order to suit different market needs and increase sales.

In the meantime, the Company will devote to the development of over-the-counter ("OTC") products. OTC Dobesilate will be launched to market in 2007. On the other hand, following the completion of production line for modern oral solution and modern soft capsules, the Company will introduce new products with unique curative effects integrating advanced new technologies, which are expected to become new driving force for the development of the Company.

It is believed that the State's reform to the medical system and the establishment of the new cooperative medical system in rural areas will contribute to the development of a better regulated medical market, which in turn will help to create greater new markets and bring more opportunities to major pharmaceutical companies with branding advantages. The Directors believe that the medical industry is in the process of integration, and that the current situation is beneficial to big-sized enterprises. The Directors aim to leverage such opportunities to facilitate fast development through acquisitions of other good quality enterprises in the PRC at proper stages.

MAINTENANCE OF THE LISTING STATUS OF THE SHARES

The Company will maintain the listing of the Shares on the Stock Exchange after Completion. Each of the Company and the Directors will undertake to the Stock Exchange that they will ensure that the public float of the Company will not be less than 25% (or such lower percentage as may be allowed under the Listed Rules) of its issued share capital before and after the issuance of the Consideration Shares as required under the Listing Rules.

Each of Prime United Industries Limited, Success Manage International Limited, Triuniverse Group Limited and Flying Success Investments Limited on 28 March 2007 have undertaken to the Company that they will dispose of their Shares in whole or in part (where appropriate) prior to the issuance of the Consideration Shares in order to maintain the minimum public float as required under the Listing Rules. Triuniverse Group Limited has already disposed of its Shares in whole as at the Latest Practicable Date. On 8 June 2006, Success Manage International Limited, a concert party of the controlling Shareholder holding 22,344,000 Shares, has entered into a placing agreement with a placing agent pursuant to which the placing agent will place not more than 20,000,000 existing Shares held by Success Manage International Limited to independent third parties. However, the total number of Shares to be placed will not be less than the shortfall between the minimum public float requirement and the actual number of Shares held by the public as of Completion. The placing price for such placing will be determined with reference to the closing price of the Shares for the five trading days up to and including the EGM date as quoted on the Stock Exchange. Pursuant to the aforesaid placing agreement, completion of the Acquisition Agreement and the placing down will take place on the same date.

Shareholders and potential investors are advised that the Stock Exchange will not grant the listing of the Consideration Shares, being one of the condition precedents to the Acquisition Agreement if there may be insufficient public float upon issuance of the Consideration Shares.

If less than 25% (or such lower percentage as may be allowed under the Listing Rules) of the Shares are held by the public, it will constitute a breach of the Listing Rules, and if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, then it may consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained. Shareholders and investors are advised to exercise caution when dealing in the Shares.

EGM

Upon Completion, New Orient will become a wholly-owned subsidiary of the Company. The Acquisition constitutes a major acquisition for the Company under the Listing Rules. Since Mr. Qu is an independent non-executive Director, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to the approval of the Independent Shareholders.

The Company will convene the EGM for considering and, if thought fit, passing the resolutions to approve (i) the Acquisition; (ii) the issue of the Consideration Shares; and (iii) the transactions contemplated under the Acquisition Agreement. The Consideration Shares will be issued under a special mandate to be approved by the Shareholders together with the Acquisition at the EGM.

Mr. Qu, who has an interest in the Acquisition, together with his associates, is required to abstain from voting for the approval of the Acquisition at the EGM. As at the Latest Practicable Date, Mr. Qu and his associates hold no Share. As confirmed by the Vendor, as at the Latest Practicable

Date, the Vendor, its subsidiaries and its ultimate beneficial owners do not hold any Shares, and therefore no Shareholder will be 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 1806-07, 18th 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.

PROCEDURES FOR DEMANDING A POLL

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.

Pursuant to the Listing Rules, the resolution in respect of the Acquisition shall be decided on a poll.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular and the letter from First Shanghai Capital Limited to the Independent Board Committee and Independent Shareholders set out on pages 22 to 32 of this circular.

The Directors (including the independent non-executive Directors except Mr. Qu) are of the view that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors except Mr. Qu) recommend that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Acquisition Agreement, the issue of the Consideration Shares and the transactions contemplated thereunder at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices 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)

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

11 June 2007

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement, details of which are set out in the letter from the Board in the circular of the Company dated 11 June 2007 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from First Shanghai Capital Limited set out on pages 4 to 20 and pages 22 to 32 of the Circular respectively. We have considered and discussed with First Shanghai Capital Limited regarding its letter of advice and the principal factors and reasons considered by it as well as its recommendation in relation to the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement. We concur with the advice from First Shanghai Capital Limited and recommend the Independent Shareholders to approve the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement.

Yours faithfully,
For and on behalf of the Independent Board Committee
Lijun International Pharmaceutical (Holding) Co., Ltd.
Mr. Leung Chong Shun　　**Mr. Chow Kwok Wai**
Independent Non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from First Shanghai Capital Limited setting out their opinion regarding the Acquisition for the purpose of inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

11 June 2007

The Independent Board Committee and
the Independent Shareholders

Lijun International Pharmaceutical (Holding) Co., Ltd.
Office 2809, 28th Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL AND THE SHAREHOLDER'S LOAN OF NEW ORIENT INVESTMENTS LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the circular dated 11 June 2007 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As disclosed in the announcement of the Company dated 30 March 2007, on 25 March 2007, the Company entered into the Acquisition Agreement with the Vendor and CPCL pursuant to which the Company has agreed to purchase and the Vendor has agreed to sell the entire interest in and a shareholder's loan of New Orient.

The Acquisition constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules. As Mr. Qu is an independent non-executive Director and also the ultimate controlling shareholder of the Vendor, the entering into of the Acquisition Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition Agreement is therefore subject to the approval of the Independent Shareholders at the EGM.

The Independent Board Committee, comprising Mr. Leung Chong Shun and Mr. Chow Kwok Wai, has been established by the Company to consider the terms of the Acquisition Agreement and advise the Independent Shareholders on, among others, the Acquisition and the issue of the Consideration Shares. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the transaction is conducted on normal commercial terms; (ii) whether or not the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole; (iii) whether the terms of the Acquisition Agreement are fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management. We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and its management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group and the New Orient Group. We have taken the reasonable steps as required under Rule 13.80 of the Listing Rules in forming our opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Acquisition, we have considered the following principal factors and reasons:

Background of the Group

The Group is one of the leading pharmaceutical manufacturers in the PRC, and 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.

According to the annual report of the Group for the year ended 31 December 2005 ("Annual Report 2005"), audited revenue of the Group amounted to approximately RMB884.7 million, representing a decrease of approximately 2.0% as compared to approximately RMB903.0 million for the year ended 31 December 2004. The decrease was due to tighten regulations imposed by the PRC government, of which the antibacterial agents not listed on the over-the-counter medicines catalogues can only be sold by retail drug stores in the PRC with the prescriptions of practicing physicians. The sale of antibiotics and other finished medicines contributed approximately 75.4% and 14.7% of the Group's total sales respectively. The audited net profit of the Group for the year amounted to approximately RMB116.5 million as compared to a net profit of approximately RMB109.1 million last year.

According to the annual report of the Group for the year ended 31 December 2006 ("Annual Report 2006"), audited revenue of the Group amounted to approximately RMB860.6 million, representing a decrease of approximately 2.7% as compared to that of the previous year. The decrease was contributed by the combined effect of mandatory order of the retail prices cut in antibiotics products by the National Development and Reform Commission and the government's strengthen regulation in distribution and purchase system of pharmaceuticals products to hospital, and expansion of distribution network in clinic and drugs stores located in rural areas. The sale of antibiotics and non-antibiotics finished medicines contributed approximately 72.1% and 18.6% of the Group's total sales respectively. The audited net profit of the Group for the year amounted to approximately RMB93.4 million, representing a decrease of approximately 19.8% as compared to last year.

Information of the New Orient Group

New Orient is an investment holding company incorporated in Samoa on 26 October 2004 with limited liability and its sole subsidiary, No.4 Pharm, is principally engaged in the production and sale of human pharmaceuticals, and infusion pharmaceuticals are its principal human pharmaceutical products. Products produced and sold by No.4 Pharm are human infusion pharmaceuticals and other human pharmaceuticals including western drugs and traditional Chinese medicines and are sold under the brand name of "石門" ("Shimen").

Infusion pharmaceuticals were mostly sold to public hospitals through the collective tender process as required by the PRC medical regulations. The New Orient Group either tenders directly or collaborates with its distributors to participate in these tenders. Similar to infusion pharmaceuticals, sales of prescriptive human pharmaceuticals to public hospitals are also mostly conducted through the collective tender process.

The table below sets out a summary of the audited consolidated income statement and the balance sheet of New Orient prepared in accordance with Hong Kong GAAP for the two years ended 31 December 2006 and as at 31 December 2005 and 31 December 2006 respectively:

	For the year ended 31 December	
	2005	**2006**
	RMB'000	*RMB'000*
Turnover	321,661	318,544
Profit before taxation and extraordinary items	63,431	67,058
Profit after taxation and extraordinary items	63,431	67,058

	As at 31 December	
	2005	**2006**
	RMB'000	*RMB'000*
Total assets	379,226	438,433
Net assets	79,252	148,771

As stated in the above table, the New Orient Group recorded an audited net profit of approximately RMB63.4 million and RMB67.1 million for the two years ended 31 December 2006. Furthermore, the Vendor and CPCL have guaranteed to the Company that the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007, which shall be calculated in accordance with the accounting principles, standards and normal practices adopted by the auditors appointed by the Company in preparing the audited financial information of the New Orient Group for the year ending 31 December 2007, will not be less than RMB70.0 million (the "Guaranteed Profit"). In the event that the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007 is less than RMB70.0 million, the Vendor agreed to compensate the shortfall between the audited consolidated net profit of the New Orient Group for the financial year ending 31 December 2007 and RMB70.0 million on a dollar-for-dollar basis.

As stated in the "Letter from the Board" in the Circular, the Vendor has agreed and will procure CPCL to place 10,000,000 Consideration Shares with the Company (together with the relevant duly signed instrument of transfer, board minutes and power of attorney) as security for the Guaranteed Profit. We have discussed with the Company and understood that the Guaranteed Profit was arrived at between the parties after arm's length negotiations after taking into account the results of the New Orient Group for the two years ended 31 December 2006, and the Directors consider that such profit guarantee provided by the Vendor and CPCL would insure the return on the Group's investment in the New Orient Group for the year ending 31 December 2007 and is in the interests of the Company and its shareholders as a whole. As such, we concur with the Directors' view and consider such basis to be reasonable.

As stated in the "Financial Information of the Group" as set out in Appendix I to the Circular, in May 2006, nine patients using No. 4 Pharm's infusion pharmaceutical products during medical treatments in a hospital in Hangzhou Province, the PRC suffered from fever, vomit and liver malfunctions. Although no penalty or legal action has been initiated by the local government bureau or the aforesaid nine patients against No. 4 Pharm, the aforesaid nine patients have the right to file a petition against No. 4 Pharm within two years of the incident according to the local laws and regulations, which constitutes a contingent liability. On 31 May 2007, CPCL entered into a deed of guarantee and indemnity, whereby CPCL unconditionally and irrevocably undertakes to indemnify the Company against any losses, liabilities, penalties, damages, costs and expenses whatsoever arising out of any regulatory investigation, enquiry, civil or administrative or criminal proceedings in respect of and/or in connection with and/or in relation to and/or incidental to the incident. The Directors believe that the Group is unlikely to be subject to any compensation claim or penalty for this incident. No provision has therefore been made in respect of this incident.

Reasons for and benefits of the Acquisition

As stated in the prospectus of the Company dated 2 December 2005, 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 prescriptive medicines.

As stated in the Annual Report 2005, antibiotics products will remain the focal sale products of the Company; however, in the meantime, the Company will devote to the development of non-antibiotics medicines and non-prescriptive products to continue enhancing its product mix and reinforcing its efforts to develop value-added end products. In view of the strategy to enhance its product mix, the Directors believe that the products of the New Orient Group are complementary to the products of the Group and thereby enhancing the product mix of the Group. The Directors also consider that the Acquisition will enhance the distribution network of the Group's products as well as enlarge the earnings base of the Group. In view of the above, the Directors consider the Acquisition to be in line with the strategy of the Group.

Having considered (i) the Directors' view as stated above; (ii) the nature of business and the historical results of the New Orient Group; and (iii) the Guaranteed Profit as mentioned in the paragraph headed "Information of the New Orient Group" in this letter, we are of the view that the Acquisition is in line with the business development strategy of the Group and is in the interests of the Group and the Shareholders as a whole.

The Acquisition and the Consideration

The Company, the Vendor and CPCL had entered into the Acquisition Agreement on 25 March 2007, pursuant to which the Company has agreed to purchase and the Vendor has agreed to sell the Sale Shares and Shareholder's Loan of New Orient.

The Consideration for the Sale Shares and the Shareholder's Loan will be satisfied by the Company in the following manner:

(i) 17.48% of the Consideration (i.e. HK$89,100,000) shall be paid by the Company by the cashier's orders issued by licensed banks in Hong Kong to Bowley Limited, and the Cashier's Orders shall be available on the date of signing of the Acquisition Agreement, which is held in escrow;

(ii) HK$319,000,000 shall be paid by the Company by way of the allotment and issue of 110,000,000 Consideration Shares to CPCL, representing (i) approximately 37.9% of the existing issued share capital of the Company and (ii) approximately 27.5% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares; and

(iii) the balance of the Consideration (i.e. HK$101,900,000) shall be paid by the Company in cash to CPCL.

Basis for determination of the Consideration

The Consideration was agreed among the parties to the Acquisition Agreement based on arm's length negotiations between the parties and is equivalent to the aggregate sum of (i) 7.5 times the audited profit attributable to the shareholders of the New Orient Group (excluding any profit generated or loss incurred in connection with foreign exchanges) for the year ended 31 December 2006; and (ii) any profit generated or loss incurred in connection with foreign exchanges for the year ended 31 December 2006. However, in any event, the Consideration shall not exceed HK$510 million. Based on the accountants' report of New Orient, the aggregate sum of (i) and (ii) as aforementioned exceeds HK$510 million (Renminbi translated into Hong Kong dollars at the rate of HK$1:RMB0.98 as at the Latest Practicable Date), and therefore the Consideration is HK$510 million. The Company currently intends to finance the Acquisition partly by its internal resources and/or bank borrowings and partly by capital market financing.

Comparables in the same industry

Based on the "Letter from the Board" in the Circular, the Directors consider 7.5 times the audited net profit as the basis of Consideration to be fair and reasonable, given most of the pharmaceutical companies listed in Hong Kong were traded at price-earnings multiples of higher than 7.5 times. For the purpose of comparison, we have selected to the best of our knowledge, 11 companies ("Comparable Companies"), listed on the Main Board of the Stock Exchange in Hong Kong that are principally engaged in manufacture and sale of pharmaceutical products. The price-earnings ratios ("PER") of the Comparable Companies as at the Latest Practicable Date are set out as follows:

Stock code	**Company name**	**PER as at the Latest Practicable Date**
874	Guangzhou Pharmaceutical Co. Ltd.	27.78
2877	China Shineway Pharmaceutical Group Ltd.	15.90
719	Shangdong Xinhua Pharmaceutical Co. Ltd.	60.64
1177	Sino Biopharmecrutical Ltd.	23.08
1093	China Pharmaceutical Group Ltd.	269.61
1889	Wuyi Internatinal Pharmaceutical Co. Ltd.	14.48
587	Hua Han Bio-pharmaceutical Holdings Ltd.	17.01
2348	Dawnrays Pharmaceutical (Holdings) Ltd.	11.06
1149	Broad Intelligence International Pharmaceutical Holdings Ltd.	6.05
1164	Vital Biotech Holdings Ltd.	19.18
2327	Jiwa Bio-pharm Holdings Ltd.	10.28
	Mean	*43.19*
	Highest	*269.61*
	Lowest	*6.05*
	The Acquisition	7.50

Source: Bloomberg

As stated in the above table, the Comparable Companies were trading at a range of approximately 6 times to 270 times their respective earnings, while the average PER was approximately 43 times. We noticed that the price-earnings ratio associated with the Consideration is at the low end of the aforesaid range and below the mean. As such, we consider that the basis for determining the Consideration is fair and reasonable.

The Consideration Shares

Pursuant to the Acquisition Agreement, HK$319,000,000 shall be paid by the Company by way of the allotment and issue of 110,000,000 Consideration Shares to CPCL. As stated in the "Letter from the Board" of the Circular, the Consideration Shares represent about 37.9% of the existing issued share capital of the Company and about 27.5% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares. The Consideration Shares will be issued to CPCL at a price of HK$2.90 per Share (without adjustments), which represents:

(i) a discount of about 5.2% to the closing price of about HK$3.06 per Share quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of about 5.8% to the average of the closing price of about HK$3.08 per Share quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;

(iii) a discount of about 6.1% to the average of the closing price of about HK$3.09 per Share quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(iv) a premium of about 67.6% over the audited net asset value of about HK$1.73 per Share as at 31 December 2006 as stated in the Annual Report 2006; and

(v) a discount of about 40.8% to the closing price of about HK$4.90 per Share quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares shall be subject to a lock-up period of 12 months (the "Look-up Period") from Completion, during which the Consideration Shares shall not be transferred, sold, lent, charged, mortgaged, otherwise used as security or otherwise encumbered, except that out of the Consideration Shares, 10,000,000 Shares will be placed with the Company as security for the Guaranteed Profit.

Having considered the issue size of the Consideration Shares, which represents about 37.9% of the existing issued share capital of the Company and about 27.5% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, as well as the Lock-up Period, we are of the view that the issue of Consideration Shares at a slight discount to the closing price and average price of the Shares prior to Last Trading Day as mentioned above is acceptable.

Possible financial effects

Earnings

Upon Completion, New Orient will become a wholly-owned subsidiary of the Company and the financial results of the New Orient Group will be consolidated into the Group. As stated on the "Letter from the Board" in the Circular, the New Orient Group recorded revenue of approximately RMB230.4 million, RMB321.7 million and RMB318.5 million for the three years ended 31 December 2006 respectively, it is expected that the Acquisition will provide a positive contribution to the earnings of the Group by providing an additional source of income, but the quantification of such impact will depend on the future performance of the New Orient Group.

Working capital

Based on the Annual Report 2006, the working capital (i.e. current assets less current liabilities) and cash and bank balances (i.e. excluding restricted bank deposits) of the Group as at 31 December 2006 amounted to approximately RMB160.3 million and RMB167.4 million respectively. Given that the Consideration is HK$510.0 million, among which (i) HK$319.0 million shall be paid by the Company by way of the allotment and issue of 110,000,000 Consideration Shares to CPCL and (ii) the remaining balance to be settled in cash, the maximum cash outflow of the Group would be approximately HK$191.0 million. In May 2007, the Company raised approximately RMB158.0 million by way of issue of zero coupon convertible bonds. According to an announcement of the Company dated 18 May 2007 in respect of such convertible bonds, 80% of the estimated net proceed will be applied to acquire or invest in complementary business or to establish joint ventures that the Company believes will complement its current or future business (including but not limited to the acquisition of New Orient) and the balance as working capital. In addition, as stated in the "Financial Information of the Group" as set out in Appendix I to the Circular, the Directors are of the opinion that taking into account the financial resources available to the Enlarged Group, including internally generated funds and the available banking facilities, the Enlarged Group has sufficient working capital for its present requirements for at least the next twelve months from the date of the Circular in the absence of unforeseen circumstances. As such, we consider that the impact on working capital of the Group is acceptable.

Net assets

According to the Annual Report 2006, the audited net assets of the Group was approximately RMB502.3 million as at 31 December 2006. Based on the "Unaudited proforma financial information of the Enlarged Group" as set out in Appendix III to the Circular, the net assets of the Enlarged Group upon Completion will be approximately RMB821.3 million, representing a considerable increase of approximately RMB319.0 million or 63.5% when compared to that of the Group immediately before Completion of RMB502.3 million. Such increase is mainly due to the combined effect of (i) the recognition of goodwill of approximately RMB214.3 million attributable to Acquisition; (ii) the property, plant and equipment of approximately RMB262.7 million arises from the Acquisition; and (iii) the increase in bank loan of approximately RMB120.6 million from New Orient Group.

Gearing

As at 31 December 2006, the Group had aggregate interest-bearing borrowings of approximately RMB209.4 million, representing a gearing ratio (which is calculated as the total interest-bearing borrowings divided by net assets of the Group) of approximately 41.7%. Based on the "Unaudited proforma financial information of the Enlarged Group" as set out in Appendix III to the Circular, the gearing ratio would reduce to approximately 40.2% upon Completion.

Dilution in shareholding

Based on the shareholding structure of the Company as set out in the "Letter from the Board" in the Circular, the public Shareholders were interested in 80,438,000 Shares or approximately 27.7% of the issued share capital of the Company as at the Latest Practicable Date. The corresponding shareholding will be diluted to approximately 20.1% upon Completion. Having considered the overall possible financial effects on and possible long-term benefits to the Group as mentioned above, we are of the view that the benefits of issue of the Consideration Shares might outweigh the dilution effect on the shareholding.

Public float

As stated on the "Letter from the Board" in the Circular, each of Prime United Industries Limited, Success Manage International Limited, Triuniverse Group Limited and Flying Success Investments Limited on 28 March 2007 have undertaken to the Company that they will dispose of their Shares in whole or in part (where appropriate) prior to the issuance of the Consideration Shares in order to maintain the minimum public float as required under the Listing Rules. Triuniverse Group Limited has already disposed of its Shares in whole as at the Latest Practicable Date. On 8 June 2006, Success Manage International Limited, a concert party of the controlling Shareholder holding 22,344,000 Shares, has entered into a placing agreement with a placing agent pursuant to which the placing agent will place not more than 20,000,000 existing Shares held by Success Manage International Limited to independent third parties. However, the total number of Shares to be placed will not be less than the shortfall between the minimum public float requirement and the actual number of Shares held by the public as of Completion. The placing price for such placing will be determined with reference to the closing price of the Shares for the five trading days up to and including the EGM date as quoted on the Stock Exchange. Pursuant to the aforesaid placing agreement, completion of the Acquisition Agreement and the placing down will take place on the same date.

Independent Shareholders should note that the Stock Exchange will not grant the listing of the Consideration Shares, being one of the condition precedents to the Acquisition Agreement if there may be insufficient public float upon issuance of the Consideration Shares.

If less than 25% (or such lower percentage as may be allowed under the Listing Rules) of the Shares are held by the public, it will constitute a breach of the Listing Rules, and if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, then it may consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained. Shareholders and investors are advised to exercise caution when dealing in the Shares.

RECOMMENDATION

Having taken into account the above principal factors, we consider that the terms of the Acquisition Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee	**Fanny Lee**
Managing Director	*Director*

1. INDEBTEDNESS

Borrowings

As at 30 April 2007, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding loans of about RMB398,118,000, comprising long-term bank borrowings of RMB33,644,000, current portion of long-term bank borrowings of about RMB35,763,000, short-term bank borrowings of about RMB328,711,000.

The net book amount of the Group's land use rights of approximately RMB4,000,000 and bank deposits amounted to approximately RMB19,703,600 were pledged as collateral for bank borrowings.

Bank loans of approximately RMB105,600,000 were secured by pledges over the New Orient Group's buildings held for own use and machinery and land use rights with an aggregate carrying value of approximately RMB189,998,000.

Contingent Liabilities

Hangzhou incident

In May 2006, 9 patients using No. 4 Pharm's infusion pharmaceutical products during medical treatments in a hospital in Hangzhou Province, the PRC suffered from fever, vomit and liver malfunctions. After the inspection of those products from the same production series by the government authorities, there was no evidence that the incident was directly resulted from the usage of No. 4 Pharm's products. No penalty or legal action has been initiated by the local government bureau or the aforesaid 9 patients against No. 4 Pharm up to the date of this report. However, according to the local laws and regulations, the aforesaid 9 patients have the right to file a petition against No. 4 Pharm within 2 years of the incident.

CPCL unconditionally and irrevocably undertakes to indemnify the Company against any losses, liabilities, penalties, damages, costs and expenses whatsoever arising out of any regulatory investigation, enquiry, civil or administrative or criminal proceedings in respect of and/or in connection with and/or in relation to and/or incidental to the Hangzhou incident. The Directors believe that the Group is unlikely to be subject to any compensation claim or penalty for this incident. No provision has therefore been made in respect of this incident.

Environmental contingency

To date, the Enlarged Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, the Directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Enlarged Group. The PRC government, however, has moved, and may move towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Enlarged Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material.

Save as disclosed above, as at 30 April 2007, the Enlarged Group had no material contingent liabilities.

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have outstanding indebtedness at the close of business on 30 April 2007 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

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 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

3. WORKING CAPITAL

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and the available banking facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

4. SUMMARY OF FINANCIAL INFORMATION

The following information has been extracted from the audited consolidated financial statements of the Group for each of the three years ended 31 December 2006:

Results

	For the Year Ended 31 December		
	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	860,641	884,709	903,006
Profit before income tax	92,401	131,668	131,392
Income tax expense	966	(15,122)	(22,331)
Profit for the year	93,367	116,546	109,061
Attributable to:			
Equity holders of the Company	84,575	93,311	88,632
Minority interest	8,792	23,235	20,429

ASSETS, LIABILITIES AND EQUITY

	As at 31 December		
	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	914,908	937,618	786,614
Total liabilities	(412,591)	(343,246)	(441,273)
Minority interest	–	(93,647)	(86,022)
Shareholders' equity	502,317	500,725	259,319

5. AUDITED FINANCIAL INFORMATION OF THE GROUP

The following is the audited financial information extracted from the annual report of the Company for the year ended 31 December 2006.

Consolidated balance sheet

		As at 31 December	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Land use rights	*6*	6,945	7,014
Property, plant and equipment	*7*	359,943	336,726
Intangible assets	*8*	6,983	–
Deferred income tax assets	*10*	8,402	7,436
Available-for-sale financial assets	*11*	609	609
		382,882	351,785
Current assets			
Inventories	*12*	85,485	93,385
Trade and bills receivable	*13*	215,867	151,326
Prepayments, deposits and other receivables	*14*	47,039	66,000
Restricted cash	*15*	16,248	–
Cash and cash equivalents	*16*	167,387	275,122
		532,026	585,833
Total assets		914,908	937,618
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	30,229	30,229
Reserves	*18*	472,088	470,496
		502,317	500,725
Minority interest		–	93,647
Total equity		502,317	594,372

		As at 31 December	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*19*	28,131	–
Long-term payables	*20*	12,713	16,512
		40,844	16,512
Current liabilities			
Trade and bills payable	*21*	52,192	60,264
Advance receipts from customers		10,348	14,516
Accruals and other payables	*22*	96,649	108,831
Income tax payable		14,628	14,628
Dividend payable	*34*	2,582	–
Amount due to minority shareholder of a subsidiary	*34*	11,742	14,763
Short-term bank borrowings	*19*	169,188	108,000
Current portion of long-term bank borrowings	*19*	12,057	5,000
Current portion of long-term payables	*20*	2,361	732
		371,747	326,734
Total liabilities		412,591	343,246
Total equity and liabilities		914,908	937,618
Net current assets		160,279	259,099
Total assets less current liabilities		543,161	610,884

Balance sheet of the Company

		As at 31 December	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	2,559	1,040
Investments in a subsidiary	*9*	323,697	152,040
		326,256	153,080
Current assets			
Dividends receivable		46,969	59,052
Prepayments, deposits and other receivables	*14*	2,890	32,081
Restricted cash	*15*	16,248	–
Cash and cash equivalents	*16*	13,740	129,745
		79,847	220,878
Total assets		406,103	373,958
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	30,229	30,229
Reserves	*18*	292,155	327,705
Total equity		322,384	357,934
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*19*	28,131	–
Current liabilities			
Accruals and other payables	*22*	761	16,024
Short-term bank borrowings	*19*	40,188	–
Current portion of long-term borrowings	*19*	12,057	–
Dividend payable	*34*	2,582	–
		55,588	16,024
Total liabilities		83,719	16,024
Total equity and liabilities		406,103	373,958
Net current assets		24,259	204,854
Total assets less current liabilities		350,515	357,934

Consolidated income statement

		Year ended 31 December	
		2006	**2005**
	Note	*RMB'000*	*RMB'000*
Revenue	*23*	860,641	884,709
Cost of sales		(415,806)	(436,842)
Gross profit		444,835	447,867
Other gains – net	*23*	176	508
Selling and marketing costs		(223,726)	(202,793)
General and administrative expenses		(123,992)	(108,414)
Operating profit		97,293	137,168
Finance income	*25*	5,340	1,569
Finance costs	*25*	(10,232)	(7,069)
Profit before income tax		92,401	131,668
Income tax expense	*26*	966	(15,122)
Profit for the year		93,367	116,546
Attributable to:			
Equity holders of the Company		84,575	93,311
Minority interest		8,792	23,235
		93,367	116,546
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	*31*	0.29	0.44
– diluted	*31*	0.29	0.44
Dividends	*30*	41,363	48,367

Consolidated statement of changes in equity

		Attributable to equity holders of the Company				
		Share capital	**Reserves**	**Total**	**Minority interest**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2005		1	259,318	259,319	86,022	345,341
Issue of share capital		30,228	149,874	180,102	–	180,102
Share issue expenses		–	(28,635)	(28,635)	–	(28,635)
Profit for the year		–	93,311	93,311	23,235	116,546
Dividends paid to equity holders of the Company		–	(3,372)	(3,372)	–	(3,372)
Dividends paid to minority interest of a subsidiary		–	–	–	(15,610)	(15,610)
Balance at 31 December 2005		30,229	470,496	500,725	93,647	594,372
Profit for the year		–	84,575	84,575	8,792	93,367
Exchange difference		–	(2,652)	(2,652)	–	(2,652)
Dividends paid/payable to equity holders of the Company		–	(68,472)	(68,472)	–	(68,472)
Dividends paid to minority interest of a subsidiary		–	–	–	(11,742)	(11,742)
Acquisition of minority interest	*33*	–	(11,859)	(11,859)	(90,697)	(102,556)
Balance at 31 December 2006		30,229	472,088	502,317	–	502,317

Consolidated cash flow statement

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	35,480	152,280
Interest paid		(10,232)	(7,069)
Income tax paid		–	(2,828)
Net cash generated from operating activities		25,248	142,383
Cash flows from investing activities			
Acquisition of minority interest in a subsidiary	*33*	(102,556)	–
Purchase of property, plant and equipment		(51,739)	(30,028)
Proceeds from sale of property, plant and equipment	*32(b)*	305	1,498
Purchase of intangible assets		(7,367)	–
Proceeds from sale of a parcel of land use right	*34(c)*	–	486
(Increase)/decrease in due from related parties		(3,047)	236
Interest received		5,340	1,569
Net cash used in investing activities		(159,064)	(26,239)
Cash flows from financing activities			
New bank loans		305,846	73,000
Repayment of bank loans		(213,470)	(97,000)
Increase of restricted bank deposits as the guarantee for bank borrowings *(Note 19)*	*15*	(16,248)	–
Proceeds from share issue, net of share issue expenses	*32(c)*	30,606	120,861
Dividend paid		(80,653)	(28,963)
Repayment of shareholders' loan		–	(47,594)
Net cash inflows from financing activities		26,081	20,304
Net (decrease)/increase in cash and cash equivalents		(107,735)	136,448
Cash and cash equivalents at beginning of year	*16*	275,122	138,674
Cash and cash equivalents at end of the year	*16*	167,387	275,122

Notes to the Consolidated Financial Statements

(All amounts in RMB)

1. General information

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in the research, development, manufacture and sale of a wide range of finished medicines and bulk pharmaceuticals through a network of independent retailers. The Group has manufacturing plants in the Shaanxi Province, the People's Republic of China ("PRC"), and sells to customers mainly in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands on 28 September 2004. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 20 December 2005.

These consolidated financial statements are presented in Renminbi (RMB), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 26 April 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments to published standards effective in 2006

Hong Kong Accounting Standards ("HKAS") 19 (Amendment), Employee Benefits, is mandatory for a company's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The amendment does not have significant impact to the Group and the adoption of this amendment only impacts the format and extent of disclosures presented in the consolidated financial statements.

(b) *Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards and interpretations to existing standards that have been issued and will become mandatory for a company's accounting periods beginning on or after 1 May 2006 but which the Group has not early adopted:

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements –Capital Disclosures. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. This standard supersedes HKAS 14 Segment Reporting, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. Management is currently assessing the impact of HKFRS 8 on the Group's operations. The Group will apply HKFRS 8 with effect from 1 January 2009.

Hong Kong International Financial Reporting Interpretation Committee ("HK(IFRIC)")-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires the consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued as to whether they fall within the scope of HKFRS 2. The Group will adopt HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the reversal of impairment losses recognised in an interim period in respect of goodwill, investments in equity instruments and investments in financial assets carried at cost, at a subsequent balance sheet date. The Group will adopt HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have significant impact on the Group's consolidated financial statements.

(c) *Interpretations to existing standards that are not yet effective and not relevant to the Group's operations*

The following interpretations to existing standards have been issued and are mandatory for a company's accounting periods beginning on or after 1 March 2006 but are not relevant to the Group's operations:

HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group's entities operates in a hyperinflationary economy, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the Group's entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(d) *Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *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.

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.

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 (Note 2.7). 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 income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2.3 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements 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 statements are presented in Chinese Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) 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 income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

2.5 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	20-40 years
– Plant and machinery	8-18 years
– Vehicles	5-10 years
– Furniture, fittings and equipment	8-10 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 (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the income statements. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

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 available for the intended use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 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.

2.7 Intangible assets

(a) 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. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Patents

Acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives (8 years).

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets 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. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and 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 recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

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 established 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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in 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 as an indicator that 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 profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 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.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.12 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.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement 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 incurred for the construction of any qualifying asset that is required to complete and prepare the asset for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed.

2.16 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 consolidated financial statement. However, the deferred income tax is not accounted for if it 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. 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.

2.17 Employee 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 has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong dollar 1,000 per person per month and any excess contributions are voluntary.

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 contributions 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 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.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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.

Dividend income is recognised when the right to receive payment is established.

2.20 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 charged to the income statement on a straight-line basis over the period of the lease.

2.21 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.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 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.

(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 21 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.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. As a result, the Group considers it has no material foreign exchange risk.

3.2 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 21.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

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 receivable

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 2.9. 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. 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. Land use rights – Group

	RMB'000
At 1 January 2005	
Cost	10,455
Accumulated amortisation	(441)
Net book amount	10,014
Year ended 31 December 2005	
Opening net book amount	10,014
Disposals	(2,918)
Amortisation charge for the year	(82)
Closing net book amount	7,014
At 31 December 2005	
Cost	7,425
Accumulated amortisation	(411)
Net book amount	7,014
Year ended 31 December 2006	
Opening net book amount	7,014
Amortisation charge for the year	(69)
Closing net book amount	6,945
At 31 December 2006	
Cost	7,425
Accumulated amortisation	(480)
Net book amount	6,945

All of the Group's land use rights are located in Xi'an and Weinan, Shaanxi Province, the PRC and are held on leases of 50 years from the dates of acquisition.

As at 31 December 2006, the net book amount of the Group's land use rights of approximately RMB 4,000,000 (2005: RMB 4,000,000) was pledged as collateral for the Group's bank loans (Note 19(d)).

The amortisation of land use rights is charged to general and administrative expenses.

7. Property, plant and equipment

Group

	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 2005						
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
Year ended 31 December 2005						
Opening net book amount	160,365	126,381	10,448	15,935	22,184	335,313
Additions	–	–	1,260	1,912	34,744	37,916
Transfer	10,124	17,257	398	–	(27,779)	–
Disposal	(1,420)	(39)	–	–	–	(1,459)
Charge for the year *(Note 24)*	(6,690)	(23,497)	(2,417)	(2,440)	–	(35,044)
Closing net book amount	162,379	120,102	9,689	15,407	29,149	336,726
At 31 December 2005						
Cost	209,407	273,872	18,688	26,349	29,149	557,465
Accumulated depreciation and impairment losses	(47,028)	(153,770)	(8,999)	(10,942)	–	(220,739)
Net book amount	162,379	120,102	9,689	15,407	29,149	336,726
Year ended 31 December 2006						
Opening net book amount	162,379	120,102	9,689	15,407	29,149	336,726
Additions	954	874	1,366	4,502	46,019	53,715
Transfer	3,982	2,628	–	–	(6,610)	–
Disposal	–	–	–	(341)	(25)	(366)
Charge for the year *(Note 24)*	(6,858)	(18,271)	(2,201)	(2,802)	–	(30,132)
Closing net book amount	160,457	105,333	8,854	16,766	68,533	359,943
At 31 December 2006						
Cost	214,343	277,374	20,054	30,264	68,533	610,568
Accumulated depreciation and impairment losses	(53,886)	(172,041)	(11,200)	(13,498)	–	(250,625)
Net book amount	160,457	105,333	8,854	16,766	68,533	359,943

The buildings are located in Xi'an and Weinan, Shaanxi Province, the PRC.

The depreciation of property, plant and equipment is charged to cost of sales, selling and marketing costs and general and administrative expenses.

Company

	Furniture and fixtures	Vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2005			
Addition	1,076	–	1,076
Charge for the year	(36)	–	(36)
Closing net book amount	1,040	–	1,040
At 31 December 2005			
Cost	1,076	–	1,076
Accumulated depreciation and impairment losses	(36)	–	(36)
Net book amount	1,040	–	1,040
Year ended 31 December 2006			
Opening net book amount	1,040	–	1,040
Addition	18	1,830	1,848
Charge for the year	(104)	(225)	(329)
Closing net book amount	954	1,605	2,559
At 31 December 2006			
Cost	1,094	1,830	2,924
Accumulated depreciation and impairment losses	(140)	(225)	(365)
Net book amount	954	1,605	2,559

8. Intangible assets – Group

	Goodwill	Patent	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2005			
Cost	751	–	751
Accumulated amortisation and impairment	(150)	–	(150)
Net book amount	601	–	601
Year ended 31 December 2005			
Opening net book amount	601	–	601
Impairment for the year *(Note 24)*	(601)	–	(601)
Closing net book amount	–	–	–
At 31 December 2005			
Cost	751	–	751
Accumulated amortisation and impairment	(751)	–	(751)
Net book amount	–	–	–
Year ended 31 December 2006			
Opening net book amount	–	–	–
Additions	–	7,367	7,367
Amortisation for the year *(Note 24)*	–	(384)	(384)
Closing net book amount	–	6,983	6,983
At 31 December 2006			
Cost	751	7,367	8,118
Accumulated amortisation and impairment	(751)	(384)	(1,135)
Net book amount	–	6,983	6,983

9. Investments in a subsidiary – Company

	Company 2006	Company 2005
	RMB'000	*RMB'000*
Unlisted shares	323,697	152,040

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid in, issued and fully paid share capital	Interest held 2006	Interest held 2005
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in PRC products in PRC	Manufacturing and sale of pharmaceutical	RMB 280,000,000	100% (Directly held)	80% (Directly held)
Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. ("Hengxintang")	Limited liability company incorporated in PRC	Manufacturing and sale of traditional Chinese medicine in PRC	RMB 10,000,000	51% (Indirectly held)	41% (Indirectly held)

10. Deferred income tax asset – Group

	As at 31 December 2006	As at 31 December 2005
	RMB'000	*RMB'000*
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	5,455	7,436
– Deferred tax asset to be recovered within 12 months	2,947	–
	8,402	7,436

The movements in deferred tax assets are as follows:

	Accrual of sales commission and others	Provisions for impairment of trade receivables	Inventory write-down	Timing difference in expense recognition	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	8,563	6,993	1,879	5,123	22,558
Recognised in the income statement *(Note 26)*	(8,563)	(4,086)	(708)	(1,765)	(15,122)
At 31 December 2005	–	2,907	1,171	3,358	7,436
Recognised in the income statement *(Note 26)*	2,663	(1,109)	(143)	(445)	966
At 31 December 2006	2,663	1,798	1,028	2,913	8,402

11. Available-for-sale financial assets

Available-for-sale financial assets represent unlisted and listed shares in certain limited liability companies in the PRC.

	As at 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Equity securities:		
Xi'an Lijun Transportation Co., Ltd. – unlisted	129	129
Sichuan Quanxing Co., Ltd. – listed	480	480
	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..

12. Inventories – Group

	As at 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Raw materials	38,934	41,907
Work in progress	23,874	13,935
Finished goods	32,229	47,304
	95,037	103,146
Less: Provision for impairment of inventory	(9,552)	(9,761)
	85,485	93,385

The Group reversed RMB 209,000 (2005: RMB 2,764,000) for impairment of inventories during the year ended 31 December 2006. The reversal has been included in cost of sales (Note 32).

13. Trade and bill receivable – Group

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	
	2006	**2005**
	RMB'000	*RMB'000*
Within 3 months	182,551	127,698
4 to 6 months	24,027	18,525
7 to 12 months	14,185	9,534
1 to 2 years	2,265	2,204
2 to 3 years	683	2,234
More than 3 years	3,843	13,638
	227,554	173,833
Less: Provision for impairment of receivables	(11,687)	(22,507)
	215,867	151,326

The Group has written off approximately RMB 14,478,000 (2005: RMB 983,000) and recognised loss of RMB 3,658,000 (2005: Write back of RMB 3,784,000) for impairment of its trade receivables during the year ended 31 December 2006. 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 amounts of the trade and bills receivables approximate their fair value.

At the respective balance sheet dates, the trade and bills receivables were denominated in currencies as follows:

	2006	**2005**
	RMB'000	*RMB'000*
USD	1,329	65
RMB	226,225	173,768
	227,554	173,833

14. Prepayments, deposits and other receivables

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Proceeds from new issue of shares retained by the underwriters *(Note 32)*	–	30,606	–	30,606
Receivables relating to disposal of staff quarters	16,416	12,916	–	–
Prepayments to suppliers	11,681	9,633	–	–
Prepaid advertising expenses	7,774	3,067	–	–
Receivables relating to disposal of land use right	2,940	2,940	–	–
Other receivables	8,228	6,838	2,890	1,475
	47,039	66,000	2,890	32,081

15. Restricted cash

As at 31 December 2006, the Group has restricted deposits amounted to RMB 16,248,000 (2005: nil) as guarantee of the bank borrowings (Note 19).

16. Bank and cash balances

Bank and cash balances were denominated in currencies as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	116,068	145,106	–	–
HKD	46,469	129,745	13,740	129,745
EUR	4,690	–	–	–
USD	160	271	–	–
	167,387	275,122	13,740	129,745

Cash and cash equivalents represented bank and cash balances. 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 was approximately 1.08% (2005: 1.08%).

17. Share capital

	Number of shares	**Amount**
	(thousands)	*RMB'000*
At 1 January 2005	10	1
Capitalisation issue	209,990	21,851
	210,000	21,852
New share issue	80,500	8,377
At 31 December 2005 and 2006	290,500	30,229

The total authorised number of ordinary share is 1,000,000,000 (2005: 1,000,000,000), with a par value of HK$ 0.10 per share (2005: HK$ 0.10 per share).

On 18 October 2004, one share was allotted and issued at par.

On 28 December 2004, 9,999 shares were allotted, issued and fully paid at par.

In December 2005, the Company issued 80,500,000 shares at HK$2.15 per share for cash (including 70,000,000 shares on 19 December 2005 and 10,500,000 shares on 21 December 2005) in connection with the listing of the Company's share on the SEHK, and raised a net proceeds of approximately RMB 151,467,000 after netting off share issue expenses amounted to approximately RMB 28,635,000. In addition, 209,990,000 shares are credited as fully paid pursuant to the capitalisation issue immediately following the issue of new shares.

18. Reserves

Group

	Share premium RMB'000	Capital reserve (Note a) RMB'000	Statutory reserves (Note b) RMB'000	Exchange difference RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2005	–	168,752	45,949	–	44,617	259,318
Issue of share capital	149,874	–	–	–	–	149,874
Share issue expenses	(28,635)	–	–	–	–	(28,635)
Profit for the year	–	–	–	–	93,311	93,311
Transfer to statutory reserves	–	–	13,804	–	(13,804)	–
Dividends	–	–	–	–	(3,372)	(3,372)
At 31 December 2005	121,239	168,752	59,753	–	120,752	470,496
Profit for the year	–	–	–	–	84,575	84,575
Transfer to statutory reserve	–	–	11,236	–	(11,236)	–
Dividends	–	–	–	–	(68,472)	(68,472)
Acquisition of minority interest (Note 33)	–	(11,859)	–	–	–	(11,859)
Exchange difference	–	–	–	(2,652)	–	(2,652)
At 31 December 2006	121,239	156,893	70,989	(2,652)	125,619	472,088

Company

	Share premium RMB'000	Capital Surplus RMB'000	Exchange difference RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2005	–	152,040	–	–	152,040
Issue of share capital	149,874	–	–	–	149,874
Share issue expenses	(28,635)	–	–	–	(28,635)
Profit for the year	–	–	–	54,426	54,426
At 31 December 2005	121,239	152,040	–	54,426	327,705
Profit for the year	–	–	–	35,574	35,574
Dividends	–	–	–	(68,472)	(68,472)
Exchange difference	–	–	(2,652)	–	(2,652)
At 31 December 2006	121,239	152,040	(2,652)	21,528	292,155

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Retained earnings representing:				
– Proposed final dividend	20,430	48,367	20,430	48,367
– Others	105,189	72,385	1,098	6,059
Total Retained earnings	125,619	120,752	21,528	54,426

(a) Capital reserve

Capital reserve of the Company includes 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.

19. Bank borrowings

	Group		Company	
	As at 31 December		**As at 31 December**	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Long-term				
– Due within one year	12,057	5,000	12,057	–
– Due over one year	28,131	–	28,131	–
Short-term	169,188	108,000	40,188	–
Total borrowings	209,376	113,000	80,376	–
Representing:				
Unsecured	124,000	108,000	–	–
Secured *	5,000	5,000	–	–
Guaranteed **	80,376	–	80,376	–
	209,376	113,000	80,376	–

* As at 31 December 2006, the net book amount of the Group's land use rights (Note 6) of approximately RMB 4,000,000 was pledged as collateral for the Group's bank borrowings (2005: RMB 4,000,000).

** The guaranteed bank borrowings as at 31 December 2006 was borrowed by the Company and guaranteed by Xi'an Lijun as well as bank deposits amounted to approximately RMB 16,248,000.

(a) An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	Group		Company	
	As at 31 December		**As at 31 December**	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB				
– at floating rates	129,000	113,000	–	–
HK dollars				
– at floating rates	80,376	–	80,376	–
	209,376	113,000	80,376	–

The carrying amounts of the group's bank borrowings approximate their fair value.

(b) The weighted average effective interest rates per annum for bank loans was approximately 6.47% (2005: 6.40%).

(c) The maturity of the Group's non-current bank borrowings at respective balance sheet dates is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	12,057	5,000	12,057	–
Between 1 to 2 years	16,075	–	16,075	–
Between 2 to 5 years	12,056	–	12,056	–
	40,188	5,000	40,188	–

(d) The collaterals of the Group's borrowings are analysed as follows:

	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount of land use right *(Note 6)*	4,000	4,000	–	–

(e) The Group has the following undrawn borrowing facilities at the respective balance sheet dates:

	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Floating rate and expiring within one year	364,000	214,000	–	–

20. Long-term payables – Group

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	
	2006	2005
	RMB'000	*RMB'000*
Within 1 year	2,361	732
Between 1 to 2 years	2,362	659
Between 2 to 5 years	3,557	1,680
More than 5 years	6,794	14,173
	15,074	17,244
Less: Current portion included in current liabilities	(2,361)	(732)
	12,713	16,512

21. Trade and bills payable – Group

	As at 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Trade payable	52,192	56,264
Bills payable	–	4,000
	52,192	60,264

The carrying amounts of the trade and bills payable approximate their fair value.

Ageing analysis of trade and bills payable at respective balance sheet dates are as follows:

	As at 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Within 3 months	36,186	55,037
4 to 6 months	1,296	1,003
7 to 12 months	657	897
1 to 3 years	12,272	1,709
More than 3 years	1,781	1,618
	52,192	60,264

22. Accruals and other payables

	Group As at 31 December		Company As at 31 December	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued distribution expenses	21,190	27,016	–	–
Taxation payables, other than income tax	13,212	10,527	–	–
Payable for property, plant and equipment	11,343	9,367	–	–
Welfare payables	11,618	23,271	–	–
Salary and wages payable	10,240	11,148	–	–
Amount due to Rejoy Group Limited Liability Company ("Rejoy Group")	6,350	–	–	–
Deposits from employees	5,972	5,407	–	–
Advertising expense payables	3,027	2,871	–	–
Accrued management bonus	2,380	3,000	–	–
Accrued advertising expenses	961	1,940	–	–
Professional fee payables	761	6,592	761	6,592
Others	9,595	7,692	–	9,432
	96,649	108,831	761	16,024

23. Revenue 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	
	2006	**2005**
	RMB'000	*RMB'000*
Revenue:		
– Sales of pharmaceutical products	857,456	880,452
– Processing income	2,312	3,410
– Sales of raw materials and by products	873	847
	860,641	884,709
Other gains – net:		
– Investment income	176	–
– Gain on disposal of a land use right	–	508
	176	508
	860,817	885,217

24. Expense by nature – Group

	Year ended 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Raw material and consumables used	307,306	314,627
Sales commission	105,865	97,331
Staff costs including directors' emoluments		
– wages and salaries	67,307	66,635
– pension costs *(Note 28)*	12,036	9,912
– welfare expenses	17,463	10,861
Utility expenses	54,032	50,973
Advertising expenses	52,999	37,781
Depreciation of property, plant and equipment	30,132	35,044
Research and development costs	7,833	7,429
Operating leases – rental expenses in respect of land use right in the PRC	5,461	5,461
Provision/(reversal of) for impairment of receivables	3,658	(3,508)
Auditors' remuneration	2,300	1,768
Amortisation of intangible assets (charged to general and administrative expenses)	384	(39)
Amortisation of land use rights (charged to general and administrative expenses)	69	82
Loss/(gain) on disposal of property, plant and equipment	61	–
Impairment of goodwill	–	601
Reversal of inventory write-down	(209)	(2,764)
Change in inventories of finished goods and work in progress	(8,032)	5,077
Others	104,859	110,778
Total cost of sales, selling and marketing costs and general and administrative expenses	763,524	748,049

25. Finance income and costs – Group

	Year ended 31 December 2006	2005
	RMB'000	*RMB'000*
Financial income		
– Interest income on demanded bank deposit	5,340	1,569
Financial costs		
– Interest expense on bank borrowings wholly repayable within five years	(10,232)	(7,069)

26. Income tax expense

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 in 2006 and 2005.

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.

Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. is subject to EIT levied at an approved rate of taxable income based on its audited accounts prepared in accordance with the laws and regulations in the PRC. As at 31 December 2006, Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. has accumulated net losses brought forward and has submitted application for its applicable tax rate and is still awaiting approval from tax authority.

The amounts of taxation credited/(charged) to the income statement represent:

	Year ended 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Current taxation – EIT	–	–
Deferred taxation *(Note 10)*	966	(15,122)
	966	(15,122)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using EIT rate as follows:

	Year ended 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Profit before income tax	92,401	131,668
Weighted average EIT rates in the PRC	24%	24%
Tax calculated at the weighted average EIT rate	(22,176)	(31,600)
Tax exemption	21,755	28,259
Effect of change in the estimate of the reversal period of temporary differences in which different tax rate are applied	1,387	–
Expenses not deductible for tax purposes	–	(345)
Effect of change of the Group's tax status for the calculation of deferred taxation	–	(11,436)
Tax charge	966	(15,122)

27. Profit attributable to the Company's equity holders

The consolidated profit attributable to the Company's equity holders includes profit of RMB 35,574,000 (2005: RMB 54,426,000) dealt with in the financial statements of the Company.

28. Retirement benefits – Group

(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. Moreover, 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, or after the individual employee has been advised of the specific terms.

29. Directors and senior management'S emoluments – Group

(a) Directors' emoluments

The emoluments of all executive and non-executive directors during the years, 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*
2005					
Executive Directors					
Mr. Wu Qin	874	145	29	8	1,056
Mr. Wu Zhihong	625	143	29	8	805
Mr. Huang Chao	624	143	29	8	804
Mr. Xie Yunfeng	375	75	27	8	485
Ms. Sun Xinglai	374	80	28	7	489
	2,872	586	142	39	3,639
Non-executive Directors					
Mr. Chow Kwok Wai	39	–	–	–	39
Mr. Leung Chong Shun	39	–	–	–	39
Mr. Qu Jiguang	39	–	–	–	39
Mr. Liu Zhiyong	14	–	–	–	14
	131	–	–	–	131
	3,003	586	142	39	3,770
2006					
Executive Directors					
Mr. Wu Qin	844	70	25	4	943
Mr. Wu Zhihong	603	151	8	4	766
Mr. Huang Chao	603	5	8	4	620
Mr. Xie Yunfeng	362	5	4	4	375
Ms. Sun Xinglai	362	181	21	4	568
Mr. Wang Xian Jun	653	151	17	–	821
	3,427	563	83	20	4,093
Non-executive Directors					
Mr. Chow Kwok Wai	181	–	–	–	181
Mr. Leung Chong Shun	181	–	–	–	181
Mr. Qu Jiguang	181	–	–	–	181
Mr. Liu Zhiyong	60	–	–	–	60
	603	–	–	–	603
	4,030	563	83	20	4,696

No Directors of the Company waived any emoluments during the years.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years are also directors of the Company and their emoluments are detailed in (a) above.

(c) During the years, 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.

30. Dividends

An interim dividend in respect of the six months ended 30 June 2006 of HK$0.07 per share, amounting to a total dividend of RMB 20,933,000 was approved at the meeting of the board of directors on 1 September 2006.

A final dividend in respect of 2006 of HK$0.07 per share, amounting to a total dividend of RMB 20,430,000 is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable.

	2006	**2005**
	RMB'000	*RMB'000*
Approved interim dividend of HK$0.07(2005: Nil) per ordinary share	20,933	–
Proposed final dividend of HK$0.07(2005: HK$0.16) per ordinary share	20,430	48,367
	41,363	48,367

31. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB 84,575,000 by the weighted average number of 290,500,000 ordinary shares in issue during the year.

The comparative basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB 93,311,000 by the weighted average number of 212,426,000 ordinary shares in issue for the year ended 2005.

32. Consolidated cash flow statement

(a) Cash generated from operations

	Year ended 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Profit before income tax	92,401	131,668
Provision/(reversal of) for impairment of receivables	3,658	(3,508)
Reversal of inventory write-downs	(209)	(2,764)
Depreciation of property, plant and equipment	30,132	35,044
Loss/(gain) on disposals of property, plant and equipment	61	(39)
Gain on disposal of a land use right	–	(508)
Amortisation of land use right	69	82
Amortisation of intangible assets	384	–
Impairment of goodwill	–	601
Interest income	(5,340)	(1,569)
Interest expense	10,232	7,069
Operating profit before working capital changes	131,388	166,076
Changes in working capital:		
Decrease/(increase) in inventories	8,109	(9,562)
Increase in trade and bills receivables	(59,361)	(21,076)
(Increase)/decrease in prepayments, deposits and other receivables	(11,252)	10,835
(Increase)/decrease in amounts due from related parties	(8,838)	27,518
Decrease in trade and bills payables and deposits and advance receipts from customers	(11,928)	(5,737)
Decrease in taxation payable, accruals, and other payables	(12,328)	(12,538)
Decrease in amounts due to related parties	(310)	(3,236)
Net cash inflow generated from operations	35,480	152,280

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Net book amount disposed *(Note 7)*	366	1,459
Gain/(loss) on disposal of property, plant and equipment	(61)	39
Proceeds from disposal of property, plant and equipment	305	1,498

(c) Proceeds from issue of new shares

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Proceeds from issue of new shares (including share premium)	–	180,102
Less: Share issue expenses	–	(28,635)
Net proceeds from issue of new shares (including share premium)	–	151,467
Proceeds received from/(retained by) the underwriters *(Note 14)*	30,606	(30,606)
Proceeds from share issue	30,606	120,861

33. Business combinations – Group

In June 2006, the Company acquired 20% equity interests in Xi'an Lijun Pharmaceutical Co.,Ltd. ("Xi'an Lijun") from the Rejoy Group for a cash consideration of approximately RMB102,556,000.

Details of the acquisition are as follows:

	RMB'000
Purchase consideration – cash paid	102,556
Less: 20% minority interest of Xi'an Lijun	(90,697)
Excess of the consideration over the carrying amount of the interests acquired	11,859

Such excess of the consideration over the carrying amount of the interests acquired is recognised directly in equity.

34. Related party transactions and balances – Group

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.

(a) During the years, the directors are of the view that the following companies are related parties of the Group:

Name	Relationship
Rejoy Group	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd before 22 June 2006
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. before 28 December 2004
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy 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 Xi'an Lijun Pharmaceutical Co., Ltd. before 28 December 2004
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Rejoy Group Zhenjiang Pharmaceutical Co., Ltd. ("Zhenjiang Pharmaceutical")	Subsidiary of Rejoy Group before October 2005
Xiyao Construction and Installation Co., Ltd. ("Xiyao Construction")	Joint venture of Xi'an Pharmacy Factory after March 2005 (wholly-owned subsidiary of Xi'an Pharmacy 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) Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	Year ended 31 December 2006 *RMB'000*	2005 *RMB'000*
Purchasing of raw materials and packaging materials	Global Printing	6,636	6,883
	Rejoy Baichuan	–	68
	Rejoy Packaging	–	717
	Zhenjiang Pharmaceutical	–	5,143
		6,636	12,811
Sales of finished goods	Rejoy Baichuan	19,515	9,043
	Rejoy Medicine	10,154	20,886
	Huabang Pharmaceutical	–	4,526
		29,699	34,455
Provision of utilities from	Xi'an Pharmacy Factory	54,032	50,973
Sharing of administrative costs from	Xi'an Pharmacy Factory	13,000	12,926
Lease of land use rights from	Rejoy Group	5,461	5,461
Lease of office premises to	Rejoy Group	200	200
Discontinued:			
Provision of assets management services by	Xi'an Pharmacy Factory	–	280
Provision of building construction services by	Xiyao Construction	–	1,809

(c) The Group had the following significant balances with related parties:

	As at 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Amounts due from related parties included in trade receivables		
– Rejoy Baichuan	8,809	1,627
– Rejoy Medicine	8,268	4,879
– Huabang Pharmaceutical	–	1,733
	17,077	8,239
Amounts due from related parties included in prepayments, deposits and other receivables		
– Xi'an Pharmacy Factory	3,600	404
– Rejoy Real Estate	–	30
– Rejoy Group	–	60
– Rejoy Technology	–	59
	3,600	553
Amounts due to related parties included in trade payables		
– Global Printing	1,528	1,656
– Rejoy Baichuan	–	5
– Rejoy Packaging	–	177
	1,528	1,838
Amounts due to related parties included in accruals and other payables		
– Rejoy Group	6,350	–
Dividend payable to the equity holders of the Company	2,582	–
Amount due to minority shareholder of a subsidiary	11,742	14,763

The related party balances are all unsecured, interest-free and have no pre-determined terms of repayment.

35. Commitments – Group

(a) Capital commitments

Capital expenditure at the balance sheet dates but not yet incurred is as follows:

	As at 31 December	
	2006	**2005**
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not provided for	14,824	10,158

(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	
	2006	**2005**
	RMB'000	*RMB'000*
Not later than one year	6,760	6,821
Later than one year and not later than five years	1,091	6,824
	7,851	13,645

36. Contingent liabilities

The Group did not have significant contingent liabilities as at 31 December 2006.

37. Events after the balance sheet date

The significant subsequent events of the Group were as follow:

(i) On 25 March 2007, the Company entered into an acquisition agreement with CMP Group Limited (the "Vendor") and China Pharmaceutical Company Limited (being the guarantor of the Vendor under the acquisition agreement) to purchase the entire interests in, and a shareholder loan of, New Orient Investments Limited ("New Orient") at a consideration which is equivalent to the aggregate sum of (i) 7.5 times the audited profit attributable to the shareholders of New Orient and its subsidiaries (excluding any profit or loss generated in connection with foreign exchanges) for the year ended 31 December 2006; and (ii) any income generated in connection with foreign exchanges for the year ended 31 December 2006. However, in any event, the consideration shall not exceed HK$510,000,000.

(ii) On 9 February 2007, the directors of Xi'an Lijun proposed a final dividends of RMB 18,041,400 in respect of the year ended 31 December 2006.

(iii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these consolidated financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

The following is the full text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

11 June 2007

The Directors
Lijun International Pharmaceutical (Holding) Co., Ltd.

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to New Orient Investments Limited ("New Orient") and its subsidiary (hereinafter collectively referred to as the "New Orient Group") including the combined income statements, combined statements of changes in equity and combined cash flow statements of the New Orient Group for each of the years ended 31 December 2004, 2005 and 2006 (the "relevant period") and the combined balance sheets of the New Orient Group as at 31 December 2004, 2005 and 2006, together with the notes thereto (the "Financial Information") for inclusion in the circular of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") dated 11 June 2007 (the "Circular") in connection with the proposed acquisition of the New Orient Group by the Company (the "Acquisition") as described more fully in the section headed "Letter from the Board " contained in the Circular.

New Orient was incorporated in Samoa on 26 October 2004 as a company with limited liability. Pursuant to a group reorganisation (the "Reorganisation"), New Orient became the holding company of the subsidiary now comprising the New Orient Group. New Orient has not carried on any business since the date of its incorporation save for the Reorganisation.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of New Orient (the "directors") based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the New Orient Group, on the basis set out in Section A below, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the

Underlying Financial Information to conform with accounting policies as referred to in Section C below, which are in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies adopted by New Orient and the Company to the extent that the accounting policies are applicable, and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

As at the date of this report, no audited financial statements have been prepared for New Orient as it is an investment holding company and has not carried on any business since its date of incorporation and is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation. We have, however, reviewed all significant transactions of this company from its date of incorporation to 31 December 2006 for the purpose of this report.

Statutory financial statements of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("No. 4 Pharm") have been prepared in accordance with the relevant accounting rules and regulations in the People's Republic of China ("PRC") and were audited during the relevant period by the statutory auditors as indicated below:

Name of company	Financial period	Auditors
No. 4 Pharm	Years ended 31 December 2004, 2005 and 2006	Hebei Renda Certified Public Accountants Co., Ltd.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information for the relevant period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have also carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the combined results, combined changes in equity and combined cash flows of the New Orient Group for the relevant period and of the combined state of affairs of the New Orient Group as at 31 December 2004, 2005 and 2006.

A. BASIS OF PRESENTATION

The Financial Information includes the financial statements of the New Orient Group for the relevant period. The results of the companies comprising the New Orient Group were combined as if the group structure had been in existence throughout the relevant period, or since their respective dates of incorporation to 31 December 2006, whichever is the shorter period. The New Orient Group's combined balance sheets as at 31 December 2004, 2005 and 2006 have been prepared to present the state of affairs of the companies comprising the New Orient Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

As at the date of this report, New Orient had direct interests in the following subsidiary, which is a private company, particulars of which are set out below:

Name of company	Place and date of establishment	Percentage of equity attributable to New Orient	Registered capital	Principal activities
Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("No. 4 Pharm")	The PRC 28 June 1994	100%	RMB 62,880,000	Production and sale of human pharmaceutical products

Note: No. 4 Pharm was a joint stock limited company established pursuant to the laws of the PRC on 28 June 1994 and was subsequently transformed to a company limited by shares on 31 July 2002 and further transformed to a wholly foreign-owned enterprise on 21 January 2005.

B. FINANCIAL INFORMATION

1. Combined income statements

(Expressed in Renminbi)

	Section C	Year ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*2*	230,422	321,661	318,544
Cost of sales	*3*	(121,660)	(161,754)	(168,474)
Gross profit		108,762	159,907	150,070
Other revenue	*4(a)*	1,912	3,431	13,657
Other net loss	*4(b)*	(76)	(405)	(94)
Selling and distribution costs		(38,960)	(63,381)	(58,375)
Administrative expenses		(28,846)	(30,088)	(32,020)
Profit from operations		42,792	69,464	73,238
Finance costs	*5(a)*	(5,120)	(6,033)	(6,180)
Share of profit of an associate	*14*	242	–	–
Profit before taxation	*5*	37,914	63,431	67,058
Income tax	*6(a)*	(8,870)	–	–
Profit for the year		29,044	63,431	67,058
Dividends attributable to the year:	*9(a)*			
Interim dividend declared during the year		19,821	–	–

The accompanying notes form part of the Financial Information.

2. Combined balance sheets

(Expressed in Renminbi)

	Section C	At 31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*11*	161,234	202,983	234,802
Lease prepayments	*12*	20,785	21,350	24,771
Construction in progress	*13*	3,652	443	6,802
		185,671	224,776	266,375
Current assets				
Inventories	*15*	27,561	36,066	24,832
Trade and other receivables, deposits and prepayments	*16*	83,199	77,329	76,590
Income tax recoverable	*24(a)*	2,133	–	–
Amount due from a former associate	*14*	2,142	338	5
Amount due from ultimate holding company	*17*	–	–	29,410
Pledged deposits	*18*	4,426	7,136	7,450
Cash and cash equivalents	*19*	120,387	33,581	33,771
		239,848	154,450	172,058
Current liabilities				
Trade and other payables	*20*	172,926	112,687	87,822
Bank loans	*21*	101,400	73,000	120,600
Shareholder's loan	*22*	86,856	79,287	76,240
Dividend payable	*9(a)*	19,821	–	–
Provision for legal claim	*23*	–	5,000	5,000
		381,003	269,974	289,662
Net current liabilities		(141,155)	(115,524)	(117,604)
Total assets less current liabilities		44,516	109,252	148,771
Non-current liabilities				
Bank loans	*21*	30,000	30,000	–
Deferred income		220	–	–
		30,220	30,000	–
NET ASSETS		14,296	79,252	148,771

2. Combined balance sheets (continued)
(Expressed in Renminbi)

	Section C	At 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Capital and reserves				
Share capital	*26*	–	–	–
Reserves	*27*	14,296	79,252	148,771
TOTAL EQUITY		14,296	79,252	148,771

The accompanying notes form part of the Financial Information.

Approved and authorised for issue by the board of directors on 11 June 2007.

Qu Jiguang	**Zhang Gui Fu**
Chairman	*Director*

3. Combined statements of changes in equity

(Expressed in Renminbi)

	Section C	Year ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Shareholders' equity at 1 January		36,213	14,296	79,252
Profit for the year	*27*	29,044	63,431	67,058
Exchange difference on translation of financial statements of operations outside PRC	*27*	–	1,525	2,461
Arising on Reorganisation	*26 and 27*	(17,935)	–	–
Dividends declared during the year	*9 and 27*	(33,026)	–	–
Shareholders' equity at 31 December		14,296	79,252	148,771

The accompanying notes form part of the Financial Information.

4. Combined cash flow statements

(Expressed in Renminbi)

	Section C	Year ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities				
Profit before taxation		37,914	63,431	67,058
Adjustments for:				
– Depreciation		13,002	15,639	19,901
– Amortisation of lease prepayments		434	435	431
– Impairment charge/(write back of impairment charge) on property, plant and equipment		2,564	–	–
– Share of profit of an associate		(242)	–	–
– Finance costs		5,120	6,033	6,180
– Interest income		(212)	(143)	(362)
– Loss on disposal of associate		36	–	–
– Loss on disposal of property, plant and equipment		40	405	94
Operating profit before changes in working capital		58,656	85,800	93,302
(Increase)/decrease in inventories		(7,599)	(8,505)	11,234
(Increase)/decrease in trade and other receivables, deposits and prepayments		(18,643)	5,870	739
(Increase)/decrease in amount due from a former associate		(2,142)	1,804	333
Increase in pledged deposits		(2,745)	(2,710)	(314)
Increase in amount due from ultimate holding company		–	–	(29,410)
Increase/(decrease) in trade and other payables		18,197	(60,239)	(24,865)
Increase in provision for legal claim		–	5,000	–
Increase/(decrease) in deferred income		220	(220)	–
Cash generated from operations		45,944	26,800	51,019
PRC Enterprise Income Tax (paid)/refunded		(7,123)	2,133	–
Net cash generated from operating activities		38,821	28,933	51,019

4. Combined cash flow statements

(Expressed in Renminbi)

	Section C	Year ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Investing activities				
Payments for purchase of property, plant and equipment		(34,721)	(45,136)	(36,343)
Payments for construction in progress		(6,138)	(10,585)	(21,871)
Proceeds from disposal of property, plant and equipment		512	1,137	41
Payments for lease prepayments		–	(1,000)	(3,852)
Interest received		212	143	362
Proceeds from disposal of associate		2,340	–	–
Net cash used in investing activities		(37,795)	(55,441)	(61,663)
Financing activities				
Proceeds from new bank loans		34,900	73,000	90,600
Proceeds from shareholder's loan		86,856	–	–
Repayment of other borrowings		(6,000)	–	–
Repayment of bank loans		–	(101,400)	(73,000)
Interest paid		(5,120)	(6,033)	(6,180)
Dividend paid		(13,205)	(19,821)	–
Repayment of shareholders' loan		–	(6,044)	(586)
Net cash generated from/(used in) financing activities		97,431	(60,298)	10,834
Net increase/(decrease) in cash and cash equivalents		98,457	(86,806)	190
Cash and cash equivalents at 1 January		21,930	120,387	33,581
Cash and cash equivalents at 31 December	*19*	120,387	33,581	33,771

C. NOTES ON THE FINANCIAL INFORMATION

(Expressed in Renminbi)

1. Significant accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the New Orient Group is set out below.

The New Orient Group has not presented combined financial statements previously. This is the New Orient Group's first HKFRS Financial Information and HKFRS 1 has been applied.

The HKICPA has issued certain new and revised HKFRSs that are not yet effective during the relevant period. The New Orient Group has not early adopted these HKFRSs in preparing the Financial Information for the relevant period *(see note 36)*.

(b) Basis of preparation of the Financial Information

The Financial Information comprises New Orient and its subsidiary and the New Orient Group's interest in associate.

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis, except for using fair value as deemed cost for certain items of property, plant and equipment *(note 11)*.

The Financial Information presents the results, cash flows and financial position of the New Orient Group for each of the years ended 31 December 2004, 2005 and 2006 on the basis that New Orient, for the purpose of this report, is regarded as a continuing entity and that the Reorganisation had been completed as at the beginning of the relevant period and that the business of the New Orient Group had been conducted by New Orient throughout the relevant period as it is related to entities under common control.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the following year are discussed in *note 34*.

The accounting policies set out below have been applied consistently to all periods presented in this Financial Information.

(c) Subsidiaries

Subsidiaries are entities controlled by the New Orient Group. Control exists when the New Orient Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Associate

An associate is an entity in which the New Orient Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the combined financial statements under the equity method from the date that significant influence commences until the date that significant influence ceases and is initially recorded at cost and adjusted thereafter for the post acquisition change in the New Orient Group's share of the associate's net assets. The combined income statement reflects the New Orient Group's share of the post-acquisition, post-tax results of the associates for the relevant period.

Unrealised profits and losses resulting from transactions between the New Orient Group and its associate are eliminated to the extent of the New Orient Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the combined income statement.

(e) Property, plant and equipment

(i) Cost

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation *(see note 1(e)(iii))* and impairment losses *(see note 1(j))*. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use.

Certain items of property, plant and equipment that had been revalued to fair value on or before 1 January 2004, the date of transition to HKFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation, less accumulated depreciation and impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the New Orient Group and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or deemed cost of property, plant and equipment, less their estimated residual value, if any, on a straight-line basis over their estimated useful lives as follows:

Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and the estimated useful lives, being no more than 10-30 years after the date of completion.

Machinery	10 years
Motor vehicles	5 years
Office equipment, furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iv) Disposals

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the combined income statement on the date of retirement or disposal.

(f) Intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the combined income statement as an expense as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the New Orient Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure is recognised in the combined income statement when incurred.

Expenditure on internally generated goodwill and brands is recognised in the combined income statement as an expense as incurred.

(g) Lease prepayments

Lease prepayments represent cost of land use rights in the PRC. Land use rights are carried at cost less accumulated amortisation and impairment losses *(see note 1(j))*. Amortisation is charged to the combined income statement on a straight-line basis over the respective periods of the rights.

(h) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses *(see note 1(j))*. Cost comprises direct costs of construction during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for its intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the New Orient Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and benefits of ownership to the New Orient Group are classified as operating leases.

Where the New Orient Group has the use of assets under operating leases, payments made under the leases are charged to the combined income statement in equal instalments over the accounting periods covered by the respective lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the combined income statement as an integral part of the aggregate net lease payments made.

(j) Impairment of assets

(i) Impairment of trade and other receivables

Current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through combined income statements. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress; and

– lease prepayments.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to combined income statements in the year in which the reversals are recognised.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost method and includes expenditure incurred in acquiring the inventories to bring them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes direct labour and an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts *(see note 1(j))* unless the effect of discounting would be immaterial, in which case they are stated at cost less impairment losses for bad and doubtful debts *(see note 1(j))*.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the combined income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Non-interest bearing borrowings

Interest-free loans without any fixed repayment terms or the effect of discounting being immaterial are stated at cost.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Salaries, wages, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits and staff welfare are accrued in the period in which the associated services are rendered by employees. Where the payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations are recognised as an expense in the combined income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(r) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the combined income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the New Orient Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, the New Orient Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the New Orient Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the New Orient Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the combined income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the combined income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with *note 1(s)(ii)* if and when (i) it becomes probable that the holder of the guarantee will call upon the New Orient Group under the guarantee, and (ii) the amount of that claim on the New Orient Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the New Orient Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the New Orient Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the combined income statement as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales tax and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised in the combined income statement when the related services are rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Rental income under operating leases

Rental income receivable under operating leases is recognised in the combined income statement in equal instalments over the accounting periods covered by the lease term.

(u) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the New Orient Group will comply with the conditions associated with the grant. Grants that compensate the New Orient Group for expenses incurred are recognised in the combined income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the New Orient Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are recognised in the combined income statement over the useful life of the asset.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the combined income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of the operations outside the PRC are translated into Renminbi at the exchange rates ruling at the transaction dates; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of operations outside the PRC, the accumulative amount of the exchange differences which relate to those operations is included in the calculation of the profit or loss on disposal.

For the purpose of presenting the combined financial statements, New Orient adopted Renminbi as its presentation currency as the business transactions of the New Orient Group are principally conducted in Renminbi. The functional currencies of New Orient and No. 4 Pharm are Hong Kong dollars and Renminbi respectively.

(w) Borrowing costs

Borrowing costs are expensed in the combined income statement in the period in which they are incurred.

(x) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(y) Related parties

For the purposes of the Financial Information, a party is considered to be related to the New Orient Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the New Orient Group or exercise significant influence over the New Orient Group in making financial and operating policy decisions, or has joint control over the New Orient Group;

(ii) the New Orient Group and the party are subject to common control;

(iii) the party is an associate of the New Orient Group or a joint venture in which the New Orient Group is a venturer;

(iv) the party is a member of key management personnel of the New Orient Group or the New Orient Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the New Orient Group or of any entity that is a related party of the New Orient Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

A segment is a distinguishable component of the New Orient Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The New Orient Group operates in a single business segment, manufacturing and sales of human pharmaceutical products mainly in the PRC. Accordingly, no segment analysis is presented.

(aa) Business combinations involving entities under common control

The combined financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the carrying values prior to the common control combination.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

2. Turnover

The principal activities of the New Orient Group are manufacture and sale of human pharmaceutical products in the PRC. Turnover represents the sales value of goods supplied to customers net of value added tax and sales tax and after sales discount and returns.

3. Cost of sales

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Direct materials	87,625	124,264	109,290
Direct labour	12,905	11,409	12,782
Manufacturing expenses	25,995	32,484	35,593
Movements of work in progress and finished goods	(4,865)	(6,403)	10,809
	121,660	161,754	168,474

Cost of sales includes approximately RMB25,082,000, RMB23,502,000, and RMB28,606,000 for each of the years ended 31 December 2004, 2005 and 2006 relating to staff costs and depreciation expenses which amount is also included in the respective total amounts disclosed separately in *notes 5(b)* and *5(c)* for each of these types of expenses.

4. Other revenue and other net loss

(a) Other revenue

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Sales of raw materials	323	349	280
Service income	–	652	687
Government grants	610	220	4,980
Interest income	212	143	362
Rental income	346	482	337
Write-back of long-aged payables	180	151	522
Other income	241	1,434	6,489
	1,912	3,431	13,657

Various government grants have been received for purchase of equipment used for technological improvements and for research and development costs on new pharmaceutical products. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not yet been incurred are accounted for as deferred income in the combined balance sheets.

(b) Other net loss

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Loss on disposal of associate	(30)	–	–
Loss on disposal of property, plant and equipment	(46)	(405)	(94)
	(76)	(405)	(94)

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
(a) Finance costs:			
Interest expense on bank borrowings wholly repayable within five years	5,120	6,033	6,180
(b) Staff costs:			
Salaries, wages and bonuses	21,593	21,590	24,922
Staff welfare	5,787	3,513	3,717
Contributions to defined contribution retirement scheme	3,766	3,741	4,550
	31,146	28,844	33,189
(c) Other items:			
Amortisation of lease prepayments	434	435	431
Auditors' remuneration	20	20	23
Depreciation	13,002	15,639	19,901
Impairment loss on property, plant and equipment	2,564	–	–
Research and development costs	3,801	3,637	3,163
Net foreign exchange loss	129	61	65
Write-back of impairment loss on trade receivables	(1,069)	(2)	(572)
Operating lease charges:			
– property rental	488	593	596

6. Income tax in the combined income statements

(a) Taxation in the combined income statements represents:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current tax – PRC Enterprise Income Tax			
Provision for the year	7,447	–	–
Deferred tax			
Origination and reversal of temporary differences	1,423	–	–
Income tax expense	8,870	–	–

(i) Pursuant to the relevant rules and regulations, New Orient is not subject to any income tax in Samoa and Hong Kong respectively from its date of incorporation to 31 December 2006.

(ii) Pursuant to the income tax rules and regulations of the PRC, No. 4 Pharm is subject to income tax at a rate of 33% for the year ended 31 December 2004. After the transformation into a wholly foreign-owned enterprise, No. 4 Pharm is granted certain tax relief, under which it is exempted from PRC Enterprise Income Tax for the first two profit making years, i.e. the period from 1 January 2005 to 31 December 2006, followed by a reduced tax rate at 13.5% for the remaining period from 1 January 2007 to 31 December 2009. No. 4 Pharm is subject to PRC Enterprise Income Tax at 27% from 1 January 2010 onwards, which is the tax rate applicable to wholly foreign-owned enterprises in the PRC.

(iii) Pursuant to the document "Cai Shui Zi (1999) No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, No. 4 Pharm received an income tax refund of RMB4,057,000 during the year ended 31 December 2004 (2005: RMB Nil; 2006: RMB Nil) relating to the purchase of equipment produced in the PRC for technological improvements.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	37,914	63,431	67,058
Notional tax on profit before taxation, calculated at rates applicable to profits in the tax jurisdiction concerned	12,511	17,126	18,106
Tax effect of non-taxable income	(971)	(412)	(664)
Tax credits	(4,057)	–	–
Tax effect of non-deductible expenses	1,185	381	85
Income exempted from tax	–	(17,373)	(17,710)
Others	202	278	183
Actual tax expense	8,870	–	–

7. Directors' remuneration

Details of directors' remuneration are as follows:

	Fees	**Basic salaries, allowances and other benefits**	**Contributions to retirement scheme**	**Discretionary bonuses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2004:					
Mr. Qu Jiguang	–	389	7	198	594
Ms. Zhang Gui Fu	–	36	7	32	75
Mr. Duan Wei	–	79	7	79	165
Mr. Wang Zhi Zhong	–	69	7	63	139
Mr. Wang Jing Cun	–	79	7	81	167
Mr. Zhou Wen Guo	–	69	7	67	143
Ms. Han Shu Qin	–	23	7	19	49
Total	–	744	49	539	1,332

	Fees *RMB'000*	Basic salaries, allowances and other benefits *RMB'000*	Contributions to retirement scheme *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
For the year ended 31 December 2005:					
Mr. Qu Jiguang	–	388	8	271	667
Ms. Zhang Gui Fu	–	36	8	44	88
Mr. Duan Wei	–	79	8	90	177
Mr. Wang Zhi Zhong	–	69	8	72	149
Mr. Wang Jing Cun	–	79	8	103	190
Mr. Zhou Wen Guo	–	70	8	71	149
Ms. Han Shu Qin	–	23	8	32	63
Total	–	744	56	683	1,483
For the year ended 31 December 2006:					
Mr. Qu Jiguang	–	473	9	223	705
Ms. Zhang Gui Fu	–	51	9	22	82
Mr. Duan Wei	–	135	9	97	241
Mr. Wang Zhi Zhong	–	111	9	76	196
Mr. Wang Jing Cun	–	121	9	104	234
Mr. Zhou Wen Guo	–	111	9	61	181
Ms. Han Shu Qin	–	38	9	7	54
Total	–	1,040	63	590	1,693

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	For the year ended 31 December		
	2004	**2005**	**2006**
	Number of directors	**Number of directors**	**Number of directors**
RMB Nil to RMB1,000,000	7	7	7

There were no amounts paid during the relevant period to the directors in connection with their retirement from employment with New Orient, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

8. Senior management remuneration

The five highest paid individuals of the New Orient Group include 3 (2004: 3; 2005: 3) directors of New Orient during the year ended 31 December 2006 whose remuneration are reflected in the analysis presented in *note 7* above. Details of remuneration paid to the remaining highest paid individuals of the New Orient Group are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries, allowances and other benefits	140	140	232
Contributions to retirement benefit scheme	13	16	18
Discretionary bonuses	142	210	147
	295	366	397
Number of senior management	2	2	2

The above individuals' emoluments are within the band of RMB Nil to RMB1,000,000.

There were no amounts paid during the relevant period to the five highest paid individuals in connection with their retirement from employment with the New Orient Group, or inducement to join.

9. Dividends

(a) Dividends attributable to the year

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interim dividend declared during the year	19,821	–	–

Pursuant to the resolutions passed at the board of directors' meeting on 28 November 2004, an interim dividend for the year 2004 of RMB19,821,000 was declared by No. 4 Pharm to its then shareholders before it became a subsidiary of New Orient and was paid in full on 4 January 2005.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year	13,205	–	–

Pursuant to the resolutions passed at the board of directors' meeting on 28 February 2004, a final dividend for the year 2003 of RMB13,205,000 was declared by No. 4 Pharm to its then shareholders before it became a subsidiary of New Orient and was paid in full on 24 March 2004.

10. Earnings per share

No earnings per share information is presented as its inclusion, for the purposes of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the relevant period on a combined basis as disclosed in *note 1* above.

11. Property, plant and equipment

	Buildings held for own use *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment, furniture and fixtures *RMB'000*	Total *RMB'000*
Cost or deemed cost:					
At 1 January 2004	67,941	74,106	2,771	1,805	146,623
Additions	3,389	29,284	1,368	680	34,721
Transfer from construction in progress *(note 13)*	18,367	1,092	–	–	19,459
Disposals	(828)	(1,033)	(120)	(142)	(2,123)
At 31 December 2004	88,869	103,449	4,019	2,343	198,680
At 1 January 2005	88,869	103,449	4,019	2,343	198,680
Additions	5,531	37,865	1,425	315	45,136
Transfer from construction in progress *(note 13)*	12,731	1,063	–	–	13,794
Disposals	(7)	(4,619)	(650)	(97)	(5,373)
At 31 December 2005	107,124	137,758	4,794	2,561	252,237
At 1 January 2006	107,124	137,758	4,794	2,561	252,237
Additions	1,173	32,135	2,044	991	36,343
Transfer from construction in progress *(note 13)*	5,380	10,132	–	–	15,512
Disposals	–	(390)	–	(37)	(427)
At 31 December 2006	113,677	179,635	6,838	3,515	303,665

	Buildings held for own use *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment, furniture and fixtures *RMB'000*	Total *RMB'000*
Accumulated depreciation and impairment:					
At 1 January 2004	(10,173)	(11,786)	(889)	(603)	(23,451)
Charge for the year	(2,797)	(8,997)	(712)	(496)	(13,002)
Impairment loss	–	(2,564)	–	–	(2,564)
Written back on disposals	470	947	23	131	1,571
At 31 December 2004	(12,500)	(22,400)	(1,578)	(968)	(37,446)
At 1 January 2005	(12,500)	(22,400)	(1,578)	(968)	(37,446)
Charge for the year	(3,413)	(11,090)	(746)	(390)	(15,639)
Written back of impairment loss on disposals	–	1,194	–	–	1,194
Written back of depreciation on disposals	3	2,214	357	63	2,637
At 31 December 2005	(15,910)	(30,082)	(1,967)	(1,295)	(49,254)
At 1 January 2006	(15,910)	(30,082)	(1,967)	(1,295)	(49,254)
Charge for the year	(4,269)	(14,316)	(854)	(462)	(19,901)
Written back on disposals	–	260	–	32	292
At 31 December 2006	(20,179)	(44,138)	(2,821)	(1,725)	(68,863)
Net carrying amounts:					
At 31 December 2006	93,498	135,497	4,017	1,790	234,802
At 31 December 2005	91,214	107,676	2,827	1,266	202,983
At 31 December 2004	76,369	81,049	2,441	1,375	161,234

(a) Buildings held for own use are situated on land held on a medium-term lease in the PRC.

(b) Certain buildings held for own use and machinery are pledged to banks for certain banking facilities granted to the New Orient Group as disclosed in *note 21*.

(c) The New Orient Group leases out part of its properties under operating leases. The leases typically run for an initial period of 15 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	350	350	350
After 1 year but within 5 years	1,400	1,400	1,400
After 5 years	4,375	4,025	3,675
	6,125	5,775	5,425

(d) Pursuant to the transformation into a company limited by shares in July 2002, property, plant and equipment of No. 4 Pharm were revalued at their open market value or replacement cost by an independent qualified valuer in the PRC. A net revaluation deficit of property, plant and equipment was recognised by No. 4 Pharm pursuant to PRC GAAP. In accordance with HKFRS 1, the New Orient Group uses this open market value less subsequent depreciation in its opening HKFRSs balance sheet as deemed cost for these property, plant and equipment. At 1 January 2004, the date of transition into HKFRSs, the aggregate amount of this property, plant and equipment is RMB34,489,000 and the effect on the opening balance sheet of this revaluation booked in July 2002 is to decrease property, plant and equipment by RMB5,602,000 and to increase deferred tax asset by RMB1,849,000.

12. Lease prepayments

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January	23,950	21,807	22,807
Add: Addition	–	1,000	3,852
Less: Government grant	(2,143)	–	–
At 31 December	21,807	22,807	26,659
Accumulated amortisation:			
At 1 January	(588)	(1,022)	(1,457)
Amortisation for the year	(434)	(435)	(431)
At 31 December	(1,022)	(1,457)	(1,888)
Carrying amount:			
At 31 December	20,785	21,350	24,771

Amounts represent payments for land use rights premium to the PRC's land bureau, which were granted for periods of 50 years. The remaining period of the land use rights of the New Orient Group ranges from 37 to 46 years as of 31 December 2006.

During the year ended 31 December 2004, a government grant was received in the form of a partial waiver of land use rights fee payable to the PRC land bureau.

Certain lease prepayments are pledged to banks for certain banking facilities granted to the New Orient Group as disclosed in *note 21*.

13. Construction in progress

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	16,973	3,652	443
Additions	6,138	10,585	21,871
Transfer to property, plant and equipment *(note 11)*	(19,459)	(13,794)	(15,512)
At 31 December	3,652	443	6,802

Construction in progress mainly comprises costs incurred on warehouses and manufacturing plant not yet completed at the respective balance sheet dates.

14. Interest in an associate

The New Orient Group had a 20% interest in 河北科威醫藥有限公司 which was disposed of during the year ended 31 December 2004. Details as at 1 January 2004 were as follows:

Name	Place of incorporation and operation	Particulars of issued share capital	Interest held	Principal activities
河北科威醫藥有限公司	PRC	RMB3,000,000	20%	Sale of medicine

Amount due from 河北科威醫藥有限公司 is unsecured, interest free and has no fixed repayment terms.

15. Inventories

(a) Inventories in the combined balance sheets comprise:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	9,716	11,532	11,168
Work in progress	519	1,142	1,557
Finished goods	17,187	23,285	12,084
Spare parts and consumables	139	107	23
	27,561	36,066	24,832

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	82,602	118,179	117,420
Write down of inventories	158	–	2,679
Reversal of write-down of inventories	–	(318)	–
	82,760	117,861	120,099

16. Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	38,852	55,252	58,757
Bills receivable	4,087	10,465	7,120
Deposits and prepayments	37,337	4,353	9,800
Other receivables	2,923	7,259	913
	83,199	77,329	76,590

All of the trade and other receivables, deposits and prepayments are expected to be recovered within one year.

An ageing analysis of trade and bills receivables (net of impairment loss for bad and doubtful debts) is as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	31,505	48,495	47,964
Over 3 months but less than 6 months	9,329	16,078	13,754
Over 6 months but less than 1 year	2,105	1,144	4,159
	42,939	65,717	65,877

Customers are required to settle the bills on presentation. Occasionally, credit terms up to six months from the date of billing may be granted to customers, depending on the credit worthiness of individual customers.

The New Orient Group's credit policy is set out in *note 29(a)*.

17. Amount due from ultimate holding company

Amount due from ultimate holding company is unsecured, interest free and has no fixed terms of repayment.

18. Pledged deposits

These bank deposits are pledged as security against bills payable of the New Orient Group *(note 20)*.

19. Cash and cash equivalents

Cash and cash equivalents in the combined balance sheets and combined cash flow statements represent cash at bank and in hand.

All cash and bank balances, which are denominated in Renminbi, are placed with banks in the PRC. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC Government.

20. Trade and other payables

Trade and other payables comprise:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	45,515	52,455	52,063
Bills payable	21,530	23,610	14,060
Accrued charges and other payables	102,567	32,986	19,300
Receipts in advance	3,314	3,636	2,399
	172,926	112,687	87,822

Other payables at 31 December 2004 included the consideration payable of RMB80,815,000 to the former shareholders of No. 4 Pharm in connection with the acquisition of No. 4 Pharm by New Orient.

Bills payable were secured by pledged deposits totalling RMB7,450,000 as at 31 December 2006 (2004: RMB4,426,000; 2005: RMB7,136,000)*(note 18)*.

An ageing analysis of trade and bills payables is as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	51,618	59,583	43,589
Over 3 months but less than 6 months	4,697	6,553	11,545
Over 6 months but less than 1 year	5,298	2,808	3,935
Over 1 year but less than 2 years	3,676	5,900	6,316
Over 2 years	1,756	1,221	738
	67,045	76,065	66,123

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the New Orient Group:

	2004	**2005**	**2006**
	'000	*'000*	*'000*
Hong Kong dollars	HK$76,240	–	–

All of the trade and other payables are expected to be settled within one year.

21. Bank loans

The bank loans are repayable as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year or on demand	101,400	73,000	120,600
After 1 year but within 2 years	–	30,000	–
After 2 years but within 3 years	30,000	–	–
	131,400	103,000	120,600
Representing:			
Secured bank loans	101,400	83,000	65,600

(i) Certain bank loans of approximately RMB101,400,000, RMB 83,000,000 and RMB 65,600,000 as at 31 December 2004, 2005 and 2006 respectively were secured by pledges over the New Orient Group's buildings held for own use and machinery and lease prepayments with an aggregate carrying value of approximately RMB122,995,000, RMB163,234,000 and RMB196,894,000 as at 31 December 2004, 2005 and 2006 respectively.

(ii) At 31 December 2006, bank loans of RMB55,000,000 (2004: RMB30,000,000; 2005: RMB20,000,000) were guaranteed by a former holding company and a fellow subsidiary.

(iii) The bank loans as at 31 December 2004, 2005 and 2006 carried interest at rates ranging from 5.1% to 5.58%, at 5.58% and at rates ranging from 5.27% to 6.12% per annum respectively.

22. Shareholder's loan

Shareholder's loan represents a loan from CMP Group Limited, the immediate holding company, which is unsecured, interest free and has no fixed terms of repayment.

Shareholder's loan is denominated in Hong Kong dollars and the carrying amount is as follows:

	2004	**2005**	**2006**
	'000	*'000*	*'000*
Hong Kong dollars	HK$81,940	HK$76,240	HK$76,240

23. Provision for legal claim

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Provision for legal claim	–	5,000	5,000

In 2001, No. 4 Pharm, a then state-owned enterprise, entered into a cross guarantee arrangement with another state-owned enterprise, 河北埃卡包裝材料有限責任公司 ("河北埃卡"), in respect of bank loans granted of RMB48,000,000. No. 4 Pharm thereafter fully settled its bank loan at maturity while 河北埃卡 only repaid RMB25,000,000 and defaulted the repayment of the remaining RMB23,000,000 which was due in 2003. In 2003, the bank commenced a litigation against both 河北埃卡 and No. 4 Pharm, as guarantor, for the loan default. The court demanded payments from 河北埃卡 by instalments according to a revised repayment plan, in which 河北埃卡 was required to repay RMB5,000,000, RMB5,000,000, RMB6,000,000 and RMB7,000,000 on or before 30 June 2004, 31 December 2004, 30 June 2005 and 31 December 2005 respectively.

At the request of No. 4 Pharm, 河北埃卡 issued a non-cancellable guarantee to No. 4 Pharm in which 河北埃卡 pledged its assets and shares with unlimited guarantee to secure No. 4 Pharm in case 河北埃卡 further defaulted on the bank loan repayment. The guarantee covered the full amount of the bank loan, interest and late payment charges.

However, 河北埃卡 subsequently defaulted the repayment of all the 4 instalments according to the revised repayment plan. A claim was therefore lodged by the bank in 2005 against No. 4 Pharm for 河北埃卡's default payment of the second instalment of RMB5,000,000. In November 2005, No. 4 Pharm settled the interest and late payment charges of RMB777,000 arising from the default payment of the second instalment of RMB5,000,000, out of the same amount of fund received from 河北埃卡 in advance. As at 31 December 2005, the directors assessed the position and considered that a provision of RMB5,000,000 was required for the default payment of the second instalment. On the other hand, No. 4 Pharm recognised a corresponding receivable from 河北埃卡 of the same amount as 河北埃卡 agreed to compensate No. 4 Pharm for its loss arising from the guarantee. The directors consider no provision is necessary for the default payment of the first instalment as the time limit for a legal claim in relation to the first instalment has lapsed according to the local PRC regulations.

During 2006, the time limit for a legal claim in relation to the third and fourth instalments also lapsed. On the other hand, 河北埃卡 paid a sum of RMB9,258,000 to No. 4 Pharm in May 2006 as a deposit against any payments which No. 4 Pharm was required to make pursuant to the court decision. As at 31 December 2006, the aforesaid provision remained as RMB5,000,000 and a payable to 河北埃卡 of RMB4,258,000 was recorded.

In February 2007, pursuant to the final judgement by the court, No. 4 Pharm settled the second instalment of RMB5,000,000 and remitted the remaining RMB4,258,000 back to 河北埃卡. After seeking legal advice, the directors believe that this RMB5,000,000 settlement represented the final settlement by No. 4 Pharm and no further claim will be made against No. 4 Pharm.

24. Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Provision for PRC Enterprise Income Tax	7,447	–	–
Provisional Enterprise Income Tax paid	(9,580)	–	–
Current tax recoverable	(2,133)	–	–

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the combined balance sheets and the movements during the relevant period are as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	(1,423)	–	–
Charged to combined income statement	1,423	–	–
At 31 December	–	–	–

Deferred tax assets mainly represent temporary differences arising from property, plant and equipment carried at deemed cost in the opening balance sheet *(note 11(d))* and different income and expense recognition criteria between financial reporting purposes and their tax bases.

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax asset recognised on the combined balance sheet	–	–	–
Net deferred tax liability recognised on the combined balance sheet	–	–	–
	–	–	–

(c) There were no significant unrecognised deferred tax assets and liabilities at 31 December 2004, 2005 and 2006.

25. Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, No. 4 Pharm participates in a defined contribution retirement scheme (the "Scheme") organised by the PRC municipal government authorities whereby No. 4 Pharm is required to contribute to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on 20% of the payroll of the eligible employees for the relevant period. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The New Orient Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Scheme.

The New Orient Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

26. Share capital

	At 31 December		
	2004	**2005**	**2006**
	RMB	*RMB*	*RMB*
Issued and fully paid:			
At 1 January	–	8	8
Issue of new share	8	–	–
At 31 December	8	8	8

New Orient was incorporated on 26 October 2004 with authorised share capital of US$1,000,000 divided into 1,000,000 shares of US$1 par value. On 26 October 2004, New Orient issued one share at par value of US$1.

On 3 December 2004, a share transfer agreement was entered into between Mr Qu together with the other 55 individual shareholders of No. 4 Pharm and New Orient. New Orient became the holding company of No. 4 Pharm on 21 January 2005.

Share capital in the New Orient Group's combined balance sheet as at 31 December 2004, 2005 and 2006 represents the issued capital of New Orient comprising 1 share of US$1.

27. Reserves

Movements in reserves of the New Orient Group during the relevant period are set out below:

	Share premium	PRC statutory reserves	Other reserve	Exchange reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	3,150	6,318	–	–	26,745	36,213
Arising on Reorganisation	(3,150)	–	(14,785)	–	–	(17,935)
Final dividend approved in respect of previous year	–	–	–	–	(13,205)	(13,205)
Profit for the year	–	–	–	–	29,044	29,044
Appropriations to PRC statutory reserves	–	4,928	–	–	(4,928)	–
Dividends declared in respect of current year *(note 11)*	–	–	–	–	(19,821)	(19,821)
At 31 December 2004	–	11,246	(14,785)	–	17,835	14,296
At 1 January 2005	–	11,246	(14,785)	–	17,835	14,296
Profit for the year	–	–	–	–	63,431	63,431
Exchange difference on translation of financial statements of operations outside PRC	–	–	–	1,525	–	1,525
Appropriations to PRC statutory reserves	–	8,596	–	–	(8,596)	–
At 31 December 2005	–	19,842	(14,785)	1,525	72,670	79,252
At 1 January 2006	–	19,842	(14,785)	1,525	72,670	79,252
Profit for the year	–	–	–	–	67,058	67,058
Exchange difference on translation of financial statements of operations outside PRC	–	–	–	2,461	–	2,461
Appropriations to PRC statutory reserves	–	6,626	–	–	(6,626)	–
At 31 December 2006	–	26,468	(14,785)	3,986	133,102	148,771

(i) Share premium

The share premium account related primarily to No. 4 Pharm and represents the difference between the issue price and the par value of shares.

(ii) PRC statutory reserves

Transfers from retained profits to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of No. 4 Pharm and were approved by its board of directors.

(a) Statutory surplus reserve and general reserve fund

For the period from 1 January 2004 to 21 January 2005, the date at which No. 4 Pharm transformed into a wholly foreign– owned enterprise, it was required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. This reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

After the date at which No. 4 Pharm transformed into a wholly foreign–owned enterprise, it is required to transfer at least 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the fund balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of a dividend to shareholders. This fund can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them.

(b) Statutory public welfare fund

For the period from 1 January 2004 to 21 January 2005, the date at which No. 4 Pharm transformed into a wholly foreign– owned enterprise, it was required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefit of its employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(c) Enterprise expansion fund

Effective from the date at which No. 4 Pharm transformed into a wholly foreign-owned enterprise, it has discretion to transfer a portion of its net profit (2005: 2.5%; 2006: Nil), as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. This fund can be used to purchase property, plant and equipment. The transfer to this fund must be made before distribution of a dividend to shareholders.

(iii) Other reserve

Other reserve represents the difference between the paid up capital of the subsidiary acquired and the consideration paid as a result of the restructuring exercise.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in *note 1(v)*.

(v) Distributable reserves

New Orient was incorporated on 26 October 2004 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2006.

On the basis set out in Section A above, the aggregate amounts of distributable reserve at 31 December 2004, 2005 and 2006 of the companies comprising the New Orient Group were RMB8,815,000, RMB63,558,000 and RMB123,192,000 respectively.

28. Related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the New Orient Group entered into the following significant related party transactions.

(a) Transactions with key management personnel

The key management personnel compensation of the New Orient Group is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	1,782	2,172	2,450
Post-employment benefits	76	94	107
	1,858	2,266	2,557

Key management personnel compensation includes RMB1,858,000, RMB2,266,000 and RMB2,557,000 for each of the years ended 31 December 2004, 2005 and 2006 respectively relating to directors' remuneration and senior management remuneration which amounts are also disclosed separately in *notes 7* and *8*.

Key management personnel compensation is included in "staff costs" *(see note 5(b))*.

(b) Other related party transactions

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Sales to 河北科威醫藥有限公司, an associate	6,675	–	–

29. Financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the New Orient Group's business. These risks are limited by the New Orient Group's financial management policies and practices described below:

(a) Credit risk

The New Orient Group's credit risk is primarily attributable to trade and bills receivables. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are usually due within 90 to 120 days from the date of billing. Occasionally, credit terms up to six months from the date of billing may be granted to customers, depending on the credit worthiness of individual customers. Debtors with balances that are more than 180 days overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the New Orient Group does not obtain collateral from customers.

The New Orient Group's financial instruments do not represent a concentration of credit risk because the New Orient Group deals with a variety of major financial institutions with good credit ratings, and its trade receivables are spread among a number of major customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. Except for the financial guarantees given by the New Orient Group as set out in *note 32*, the New Orient Group does not provide any guarantee which would expose the New Orient Group to credit risk.

(b) Liquidity risk

No. 4 Pharm, the sole operating entity within the New Orient Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by New Orient's board when the borrowings exceed certain predetermined levels of authority. The New Orient Group' s policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The liquidity of the New Orient Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and on its ability to obtain external borrowings, to meet its committed future capital expenditures.

The New Orient Group's net current liabilities amounted to RMB141,155,000, RMB115,524,000 and RMB117,604,000 as at 31 December 2004, 2005 and 2006 respectively. The directors of New Orient have carried out a detailed review of the cash flow forecast of the New Orient Group for the eighteen months ending 30 June 2008. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the New Orient Group during that period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

(c) Interest rate risk

The interest rates and terms of repayment of loans of the New Orient Group are disclosed in *notes 21* and *22*. The New Orient Group does not use derivative financial instruments to hedge its debt obligations.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier:

	As at 31 December					
	2004		2005		2006	
	Effective interest rate	One year or less	Effective interest rate	One year or less	Effective interest rate	One year or less
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Repricing dates for assets/ (liabilities)which reprice before maturity						
Cash and cash equivalents and pledged deposits	0.72%	124,813	0.72%	40,717	0.72%	41,221
Bank loans	5.1% to 5.58%	(131,400)	5.58%	(103,000)	5.27% to 6.12%	(120,600)

(d) Fair value

Amount due from ultimate holding company and shareholder's loan are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose fair value.

Save as discussed in the preceding paragraph, all financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2004, 2005 and 2006.

(e) Business risk

The New Orient Group is dependent on specific raw materials for its production of certain human pharmaceutical products. The New Orient Group has a certain concentration of business risk as 54%, 46% and 49% of the total purchase from the New Orient Group's five largest suppliers during year ended 31 December 2004, 2005 and 2006 respectively. If the New Orient Group could not purchase adequate quantities of specific raw materials from these suppliers and failed to identify alternative sources, its results and financial position could be adversely affected.

30. Operating lease commitment

Operating lease as lessee:

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	309	309	309
After 1 year but within 5 years	1,545	1,545	1,545
After 5 years	10,196	9,887	9,578
	12,050	11,741	11,432

The New Orient Group leases a number of land and properties under operating leases. The leases typically run for an initial period of 15-50 years for land and one year for properties, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

31. Capital commitments

Capital commitments outstanding at 31 December 2004, 2005 and 2006 not provided for in the Financial Information were as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	6,740	9,940	11,620
Authorised but not contracted for	—	—	—
	6,740	9,940	11,620

32. Contingent liabilities

(a) Financial guarantees issued

(i) As mentioned in *note 23*, No. 4 Pharm had issued a cross guarantee in the amount of RMB23,000,000 in respect of the bank loans to 河北埃卡.

As at the balance sheet date, the maximum liability of the New Orient Group under the cross guarantee issued is the outstanding amount of the bank loans to 河北埃卡. The guarantee was released in February 2007.

The New Orient Group has not recognised any deferred income in respect of the cross guarantee as the fair value cannot be reliably measured and the transaction price was RMB Nil.

(ii) As at 31 December 2004, No. 4 Pharm had issued a single guarantee in respect of a bank loan to a fellow subsidiary, 河北遠征藥業股份有限公司 ("河北遠征") in the amount of RMB4,800,000. The guarantee was released in 2005.

As at 31 December 2004, the directors do not consider it probable that any claim will be made against the New Orient Group under the guarantee. The maximum liability of the New Orient Group at 31 December 2004 under the single guarantee issued is the outstanding amount of the bank loan to 河北遠征 (2004: RMB 4,800,000; 2005 and 2006: RMB Nil).

The New Orient Group has not recognised any deferred income in respect of the single guarantee as the fair value cannot be reliably measured and the transaction price was RMB Nil.

(b) Hangzhou incident

In May 2006, 9 patients using No. 4 Pharm's infusion pharmaceutical products during medical treatments in a hospital in Hangzhou Province, the PRC suffered from fever, vomit and liver malfunctions. The directors believe that even after the inspection of those products from the same production series by the government authorities, there was no evidence that the incident was directly resulted from the usage of No. 4 Pharm's products. No penalty or legal action has been initiated by the local government bureau or the aforesaid 9 patients against No. 4 Pharm up to the date of this report. However, according to the local laws and regulations, the aforesaid 9 patients have the right to file a petition against No. 4 Pharm within 2 years of the incident. The directors believe that No. 4 Pharm is unlikely to be subject to any compensation claim or penalty for this incident. No provision has therefore been made in respect of this incident.

(c) Environmental contingency

To date, the New Orient Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the New Orient Group. The PRC government, however, has moved, and may move towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the New Orient Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material.

33. Ultimate holding company

The directors consider the ultimate holding company of New Orient as at 31 December 2006 to be China Pharmaceutical Company Limited, which is incorporated in Samoa.

34. Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the combined financial statements. The principal accounting policies are set forth in *note 1*. The New Orient Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The New Orient Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the New Orient Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment loss on trade receivables

The New Orient Group evaluates whether there is any objective evidence that trade receivables are impaired, and to determine the amount of impairment loss as a result of the inability of the debtors to make required payments. The New Orient Group bases the estimates on the ageing of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(c) Allowances for obsolescence of inventories

The New Orient Group determines the allowances for obsolescence of inventories. These estimates are based on the current market condition and the historical experience of selling goods of similar nature. It could change significantly as a result of changes in market condition.

35. New Orient's balance sheets

The balance sheets of New Orient at 31 December 2004, 2005 and 2006 were as follows:

	Note	**2004** *RMB'000*	**2005** *RMB'000*	**2006** *RMB'000*
Non-current assets				
Investment in a subsidiary		80,815	80,815	80,815
Current assets				
Amount due from ultimate holding company	*(a)*	–	–	29,410
Cash and cash equivalents		86,859	–	4
		86,859	–	29,414
Current liabilities				
Shareholder's loan	*(b)*	86,856	79,287	76,240
Other payable	*(c)*	80,815	–	–
		167,671	79,287	76,240
Net current liabilities		(80,812)	(79,287)	(46,826)
NET ASSETS		3	1,528	33,989
Equity				
Share capital	*(d)*	–	–	–
Reserves		3	1,528	33,989
		3	1,528	33,989

(a) Amount due from ultimate holding company is unsecured, interest free and has no fixed terms of repayment.

(b) Shareholder's loan represents a loan from CMP Group Limited, which is unsecured, interest free and has no fixed terms of repayment.

(c) Other payable represented the consideration payable to the former shareholders of No. 4 Pharm for New Orient's acquisition of No. 4 Pharm in December 2004. This amount had been subsequently settled during 2005.

(d) New Orient was incorporated on 26 October 2004 with an issued share capital of 1 share of US$1.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant period

Up to the date of issue of this Accountants' Report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this Accountants' Report.

Of these developments, the following relate to matters that may be relevant to the New Orient Group's operations and financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

The New Orient Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that whilst the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the New Orient Group's results of operations and financial position.

D. DIRECTORS' REMUNERATION

Directors' remuneration and senior management's remuneration paid or payable in respect of the relevant period by New Orient or any of the companies now comprising the New Orient Group have been disclosed in *notes 7* and *8* of Section C above. Under the arrangement presently in force, the estimated aggregate amount of directors' remuneration payable for the year ending 31 December 2007 is approximately RMB4,000,000, excluding management bonuses which are payable at New Orient's discretion.

E. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2006:

Proposed acquisition of the New Orient Group

On 30 March 2007, the Board of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") announced that the Company entered into an acquisition agreement with CMP Group Limited and China Pharmaceutical Company Limited pursuant to which the Company has agreed to purchase and CMP Group Limited has agreed to sell the entire interests in and a shareholder's loan of the New Orient Group.

Enactment of new tax law in the PRC

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. No. 4 Pharm, after transformation into a wholly foreign-owned enterprise, is entitled to tax exemption for the first two years of profitable operations and a tax relief of 50% in the next three years of operations and hence enjoys a preferential income tax rate of 13.5%. As a result of the new tax law, it is expected that the income tax rate applicable to No. 4 Pharm for the period from 1 January 2007 to 31 December 2009 will be reduced from 13.5% to 12.5%. No. 4 Pharm is subject to PRC income tax at 25% from 1 January 2010 onwards. The enactment of the new tax law is not expected to have any financial effect on the amounts to be accrued in the combined balance sheet in respect of current tax payable.

Valuation of properties

For the purpose of the Acquisition, the lease prepayments, and property, plant and equipment of the New Orient Group were revalued as at 31 December 2006 by Sallmanns (Far East) Limited, an independent firm of professional surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB35,794,000 and RMB21,047,000 from the carrying amounts of the lease prepayments, and property, plant and equipment at that date respectively. The revaluation surplus will be incorporated in the consolidated financial statements of the Company for the year ending 31 December 2007 and an additional amortisation and depreciation of approximately RMB 3,000,000 per annum will be incurred.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by New Orient or any of the companies now comprising the New Orient Group in respect of any period subsequent to 31 December 2006.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

For illustrative purpose only, set out below is the unaudited pro forma financial information of the Group after completion of the Acquisition of New Orient. The unaudited pro forma financial information is prepared in accordance with Paragraph 4.29(1) and Paragraph 14.67(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying unaudited pro forma financial information of the Enlarged Group, including the unaudited pro forma balance sheet prepared based on the consolidated balance sheet of the Group as at 31 December 2006 and the combined balance sheet of the New Orient Group as at 31 December 2006, which gives effect to the Acquisition as if the Acquisition had been completed on 31 December 2006 (the "Unaudited Pro Forma Financial Information").

The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based upon the audited consolidated balance sheet of the Group as at 31 December 2006 as set out in Appendix I to this circular and the audited combined balance sheet of the New Orient Group as at 31 December 2006 as set out in Appendix II after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the financial information of the New Orient Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

1. *Unaudited pro forma combined balance sheet as at 31 December 2006*

	The Group	The New Orient Group	Pro forma Combined	Pro forma adjustments			Pro forma the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(note 2(a))	*(note 2(b))*	*(note 2(c))*	
BALANCE SHEET							
ASSETS							
Non–current assets							
Land use rights	6,945	24,771	31,716			35,794	67,510
Goodwill	—	—	—			214,345	214,345
Property, plant and equipment	359,943	241,604	601,547			21,047	622,594
Intangible assets	6,983	—	6,983			107,105	114,088
Deferred income tax assets	8,402	—	8,402				8,402
Available-for-sale financial assets	609	—	609				609
	382,882	266,375	649,257				1,027,548

	The Group	The New Orient Group	Pro forma Combined	Pro forma adjustments			Pro forma the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(note 2(a))	*(note 2(b))*	*(note 2(c))*	
Current assets							
Inventories	85,485	24,832	110,317			5,179	115,496
Trade and bills receivables	215,867	65,877	281,744				281,744
Prepayments, deposits and other receivables	47,039	10,718	57,757				57,757
Amount due from ultimate holding company	—	29,410	29,410	35,546	(64,956)		—
Restricted cash	16,248	7,450	23,698				23,698
Cash and cash equivalents	167,387	33,771	201,158	(35,546)		(183,935)	(18,323)
	532,026	172,058	704,084				460,372
Total assets	914,908	438,433	1,353,341				1,487,920
EQUITY							
Capital and reserves attributable to the Company's equity holders							
Share capital	30,229	—	30,229			11,000	41,229
Reserves	472,088	148,771	620,859			159,229	780,088
Total equity	502,317	148,771	651,088				821,317

	The Group	The New Orient Group	Pro forma Combined	Pro forma adjustments			Pro forma the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(note 2(a))	*(note 2(b))*	*(note 2(c))*	
LIABILITIES							
Non-current liabilities							
Long-term bank borrowings	28,131	—	28,131				28,131
Long-term payables	12,713	—	12,713				12,713
Deferred income tax liabilities	—	—	—			40,590	40,590
	40,844	—	40,844				81,434
Current liabilities							
Trade and bill payables	52,192	42,825	95,017				95,017
Receipts in advances from customers	10,348	2,399	12,747				12,747
Accruals and other payables	96,649	42,598	139,247				139,247
Income tax payable	14,628	—	14,628				14,628
Dividend payable	2,582	—	2,582				2,582
Amount due to minority shareholder of a subsidiary	11,742	—	11,742				11,742
Shareholder's loan	—	76,240	76,240		(64,956)	(11,284)	—
Short-term bank borrowings	169,188	120,600	289,788				289,788
Current portion of long-term bank borrowings	12,057	—	12,057				12,057
Current portion of long-term payables	2,361	—	2,361				2,361
Provision for legal claim	—	5,000	5,000				5,000
	371,747	289,662	661,409				585,169

	The Group	The New Orient Group	Pro forma Combined	Pro forma adjustments			Pro forma the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(note 2(a))	*(note 2(b))*	*(note 2(c))*	
Total liabilities	412,591	289,662	702,253				666,603
Total equity and liabilities	914,908	438,433	1,353,341				1,487,920
Net current assets/ (liabilities)	160,279	(117,604)	42,675				(124,797)
Total assets less current liabilities	543,161	148,771	691,932				902,751

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

2. *Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group*

(a) *Advance to ultimate holding company of New Orient*

The unaudited pro forma adjustment reflects an advance granted to New Orient's ultimate holding company by New Orient subsequent to 31 December 2006 amounted to RMB35,546,000. This amount due from ultimate holding company is set off in (b) below.

(b) *Setting off of Intra-group balances*

The unaudited pro forma adjustment reflects the inter-company settlement of balance between the immediate shareholder and the ultimate holding company of New Orient.

(c) Excess of consideration of the Acquisition over the net fair value of the acquired net assets

Pursuant to the acquisition agreement dated 25 March 2007 entered into between Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and CMP Group Limited ("CMP") and China Pharmaceutical Company Limited (the "Guarantor"), the maximum consideration payable by the Company for the proposed acquisition of the entire equity interest in New Orient Group (the "Sale Shares") and its shareholder's loan due to CMP of HK$11,284,200 (the "Shareholder's Loan"), will be HK$510,000,000. The consideration is equivalent to the aggregate sum of (i) 7.5 times the audited profit attributable to the shareholders of the New Orient Group (excluding any profit or loss generated in connection with foreign exchange) for the year ended 31 December 2006; and (ii) any income generated in connection with foreign exchange for the year ended 31 December 2006. The consideration for the Sale Shares and Shareholder's Loan will be satisfied by the Company in the following manner upon completion: (1) HK$319,000,000 shall be paid by the Company by way of the allotment and issue of 110,000,000 Consideration Share to CPCL, and (2) the balance by cash.

Upon completion of the Acquisition, identifiable assets and liabilities of the New Orient Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the purchase method of accounting. The identifiable assets and liabilities of the New Orient Group are recorded in the unaudited pro forma combined balance sheet of Enlarged Group at their fair value as if the Acquisition was completed on 31 December 2006, the fixed assets (i.e. land use rights and property, plant and equipment), intangible assets, inventories and deferred income tax liabilities increase by approximately RMB56,841,000, RMB107,105,000, RMB5,179,000 and RMB40,590,000 respectively as a result of the fair value adjustments on the carrying amount of the relevant assets.

The excess of the consideration of the Acquisition over the fair value of the acquired net assets, the deferred income tax liabilities and the adjustment of shareholder's loan amounted to RMB214,345,000 is recognized as goodwill in the unaudited pro forma combined balance sheet as if the Acquisition was completed on 31 December 2006.

The above fair value adjustments on fixed assets, intangible assets, inventories and deferred income tax liabilities are determined by the directors of the Company.

The calculation of goodwill in the unaudited pro forma balance sheet is based on the value of Consideration Share at HK$2.90 per share. However, the final amounts of the goodwill and its related adjustments will be determined on the market price of the Share of the Company on the completion date of the acquisition which may be different from the price presented in this Appendix.

The above unaudited pro forma adjustment reflects the increase in the net assets by RMB170,229,000.

(d) Translation of RMB into HK$ is made in the Unaudited Pro Forma Balance Sheet of the Enlarged Group at the rate of HK$1=RMB1.

The following is the text of a comfort letter, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Available for Inspection" in Appendix IV, a copy of the following comfort letter is available for inspection.

(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
Lijun International Pharmaceutical (Holding) Co., Ltd.

11 June 2007

Dear Sirs,

We report on the unaudited pro forma financial information ("the Unaudited Pro Forma Financial Information") of the Enlarged Group set out in Section A of Appendix III to the circular of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company", together with its subsidiaries are referred to as the "Group") dated 11 June 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the entire issued share capital and the shareholder's loan of New Orient Investments Limited ("New Orient", together with its subsidiary, the "New Orient Group"), might have affected the audited consolidated balance sheet of the Group as at 31 December 2006. The basis of preparation of the Unaudited Pro Forma Financial information is set out in the section headed "Introduction to the unaudited pro forma financial information" and notes to the Unaudited Pro Forma Financial Information of the Enlarged Group of Section A of this Appendix.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

a) the accompanying 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(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

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 that, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. 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 percentage of the issued share capital of the Company
Mr. Wu Qin	Interest in a controlled corporation *(Note 1)*	22,344,000	7.69%
Mr. Qu	Interest in a controlled corporation *(Note 2)*	110,000,000	37.87%

Notes:

1. These shares were registered in the name of and beneficially owned by Success Manage International Limited ("Success Manage"), the issued share capital of which is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, Mr. Wu Qin is deemed to be interested in all the Shares held by Success Manage. These Shares have been pledged to Guotai Junan Securities Co., Ltd.

2. CPCL is interested in these shares pursuant to the Acquisition Agreement. CPCL is held as to 72.93% by Mr. Qu and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu is deemed to be interested in the Shares held by CPCL.

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 which would fall to be disclosed to the Company under the provisions to Divisions 2 and 3 of Part XV of the SFO, 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 percentage of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	123,984,000	42.68%
CPCL	Beneficial owner	110,000,000	37.87%
Mr. Qu *(Note 2)*	Interest of controlled corporation	110,000,000	37.87%
Victory Rainbow Investment Limited	Beneficial owner	58,300,000	20.07%
Grand Ocean Shipping Company Ltd. *(Note 3)*	Interest of controlled corporation	58,300,000	20.07%
Ms. Chen Lin-Dong *(Note 3)*	Interest of controlled corporation	58,300,000	20.07%
Mr. Xu Ming *(Note 3)*	Interest of controlled corporation	58,300,000	20.07%

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
Success Manage	Beneficial owner	22,344,000	7.69%
Mr. Wu Qin *(Note 4)*	Interest of controlled corporation	22,344,000	7.69%
Ms. Zhang Minfang *(Note 4)*	Interest of spouse	22,344,000	7.69%
Guotai Junan Securities Co., Ltd *(Note 4)*	Person having a security interest in shares	22,344,000	7.69%
ABN AMRO Bank N.V.	Beneficial owner	20,370,709	7.01%
ABN AMRO Holding N.V. *(Note 5)*	Interest of controlled corporation	20,370,709	7.01%
Potent Holdings Limited	Beneficial owner	19,602,709	6.75%
Zhang Qing *(Note 6)*	Interest of controlled corporation	19,602,709	6.75%

Notes:

(1) Prime United Industries Limited is held as to about 2.43% by Mr. Wu Qin, an executive Director, as to about 2.43% by Mr. Wu Zhihong, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 4% by Ms. Han Yamei, a member of the management of Xi'an Lijun and as to about 84.73% by Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yumei who jointly hold such shares on trust for 4,965 individuals who are present and former employees or their respective estates of Xi'an Lijin and Rejoy Group. Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of the Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by Shaanxi Pharmaceutical Company（陝西省醫藥總公司）, a state-owned enterprise under the direct supervision of the Shaanxi Provincial Government.

(2) CPCL is held as to 72.93% by Mr. Qu and as to 27.07% by 39 shareholders. By virtue of Part XV of the SFO, Mr. Qu is deemed to be interested in the Shares held by CPCL.

(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) Success Manage 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 Mingfang, are deemed to be interested in all the Shares held by Success Manage. These Shares has been pledged to Guotai Junan Securities Co., Ltd.

(5) ABN AMRO Bank N.V. is wholly-owned by ABN AMRO Holding N.V. By virtue of Part XV of the SFO, ABN AMRO Holding N.V. is deemed to be interested in the Shares held by ABN AMRO Bank N.V.

(6) Potent Holdings Limited is wholly-owned by Mr. Zhang Qing. By Virtue of Part XV of the SFO, Mr. Zhang Qing is deemed to be interested in the Shares held by Potent Holdings Limited.

3. COMPETING INTEREST

As at the Latest Practicable Date, save for the interest of Mr. Qu in the Vendor, 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.

4. 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 or proposed Directors as mentioned in the letter from the Board has entered into or is proposing to enter into a service contract with any member of the Group or the New Orient Group which may not be terminated by the relevant member of the Group or the New Orient Group within one year without payment of any compensation (other than statutory compensation).

5. 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 or the New Orient Group since 31 December 2006, the date of which the latest published audited consolidated financial statements of the Group were made up.

Except Mr. Qu's interests in the Acquisition Agreement and the Escrow Agreement, no contract or arrangement in which a Director is materially interested and which is significant in relation to the business of the Group or the New Orient Group subsisted as at the Latest Practicable Date.

6. 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
First Shanghai Capital Limited	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants

(b) As at the Latest Practicable Date, each of the experts mentioned in paragraph (a) above did not have any shareholding in the Group or the New Orient Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group or the New Orient Group.

(c) Each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report, letter and/or opinion and reference to its name in the form and context in which they appear as of the date of this circular for incorporation herein.

(d) 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 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group nor the New Orient 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.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group or the New Orient Group within two years preceding the date of this circular which are or may be material:

(a) A memorandum of agreement between Xi'an Rejoy Technology Investment Co. Ltd. (西安利君科技投資有限公司) ("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;

(b) A memorandum of agreement between Xi'an Sanjiang Enterprise (Group) Co., Ltd. (西安三江實業(集團)有限責任公司) ("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;

(c) A memorandum of agreement between Xi'an Combel Pharmaceutical Co., Ltd. (西安康拜爾製藥有限公司) ("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;

(d) A memorandum of agreement between Shenzhen Jinhuo Enterprise Co., Ltd. (深圳市金活實業有限公司) ("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;

(e) A memorandum of agreement between Liaoning Huabang Pharmaceutical Co., Ltd. (遼寧華邦醫藥有限公司) ("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;

(f) 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;

(g) 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 the prospectus dated 2 December 2005;

(h) 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 the prospectus dated 2 December 2005;

(i) a transfer agreement dated 16 May 2006 entered with Rejoy Group Limited Liability Company (利君集團有限責任公司), ("Rejoy Group"), pursuant to which Rejoy Group agreed to transfer 20% equity interests in Xi'an Lijun to the Company;

(j) the Acquisition Agreement;

(k) the Escrow Agreement; and

(l) a subscription agreement dated 17 May 2006 entered into with ABN AMRO Bank N.V. details of which are set out in the announcement of the Company dated 18 May 2007.

9. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal address of the Company in Hong Kong is Office 2809, 28th 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 at Shops 1806-07, 18th 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.

10. 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 2809, 28th 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 letter of recommendation from the Independent Board Committee, the text of which is set out in this circular;

(b) the letter issued by First Shanghai Capital Limited, the text of which is set out in this circular;

(c) the audited accounts of New Orient for the three years ended 31 December 2006;

(d) the letters of consents from the experts referred to in the paragraph headed "Experts Qualifications and Consent" of this appendix;

(e) memorandum and articles of association of the Company;

(f) audited accounts of the Company for the two years ended 31 December 2006; and

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix.

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 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 26 June 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company :

ORDINARY RESOLUTION

"THAT,

(a) the Acquisition (such term shall have the meaning as defined in the circular to the shareholders of the Company dated 11 June 2007) be approved and 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;

(b) the issue of the Consideration Shares (such terms shall have the meaning as defined in the circular to the shareholders of the Company dated 11 June 2007) be approved and 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; and

(c) the transactions contemplated under the Acquisition Agreement and the Escrow Agreement (such terms shall have the meaning as defined in the circular to the shareholders of the Company dated 11 June 2007) be approved and 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."

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 11 June 2007

Notes:

1. Any member entitled to attend and vote at the Meeting 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 attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1806-07, 18th 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 adjournment thereof.

3. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

4. Where there are joint holders of any Share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any 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 in respect of the joint holding.