

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



Interim Report

2014

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Qu Jiguang (*Chairman*)
Mr. Wang Xianjun
Mr. Duan Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chan Ka Kit

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2101-2, 21st Floor,
Harbour Centre, 25 Harbour Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Chan Ka Kit

AUDIT COMMITTEE

Mr. Chow Kwok Wai (*Chairman*)
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun (*Chairman*)
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing (*Chairman*)
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road
George Town, Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
China CITIC Bank International
Bank of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Bank of Hebei

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITORS

PricewaterhouseCoopers

WEBSITE

<http://www.lijun.com.hk>

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Lijun International Pharmaceutical (Holding) Co., Ltd. ("the Company"), I hereby present the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014.

1. RESULTS AND DIVIDEND DISTRIBUTION

Under downward pressure from increasing operating costs, falling drug prices and intensified market competition, vigorous efforts have been made to enhance business management, tap internal potential, lower operating costs and expand space for development by increasing domestic and overseas market share, accelerating infrastructural projects to commence production and achieve efficiency, and expediting new product development in 2014. As a result, our market share and operating results have maintained strong growth. In January to June 2014, the Group has achieved steady and positive growth, with a revenue from principal businesses of HK\$1,527 million, representing an increase of 8.3%, and a net profit of HK\$301 million. Among which Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma") materialized a sales income of HK\$996 million, representing a period-to-period increase of 18.6%, and Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") materialized a sales income of HK\$531 million, representing a period-to-period decrease of 7.0%. During the period, the Group materialized a net profit of HK\$301 million, representing a period-to-period increase of 32.2%. The increase in profit was mainly attributable to the rapid and efficient development of intravenous infusion solution business. Shijiazhuang No. 4 Pharma materialized a net profit of HK\$275 million, representing over 90% of the Group's overall net profit.

The board of directors resolved to distribute an interim dividend of HK3 cents per share, amounting to a total of HK\$88.62 million, representing an increase of 51.2% as compared to the same period of last year. The board of directors also resolved to distribute a special dividend of HK3 cents per share, amounting to a total of HK\$88.62 million.

2. BUSINESS REVIEW

1. Reinforcement and expansion of domestic and overseas market share, and maintenance of rapid growth in the production and sales of leading products. In January to June, the Company has adjusted and expanded the coverage of advantageous infusion solution products in end hospitals, secured end customers and focused on exploring target hospitals. These measures have driven rapid growth in the sales volume of soft bag infusion solutions (in particular, double-outlet soft bag infusion solutions) and therapeutic infusion solutions with higher gross profit margins, and ensured sustained growth in product sales and operating results. Increasing marketing efforts and further enhancement of product structure have resulted in steady growth in production capacity. In the first half of the year, output of the Company's intravenous infusion solutions amounted to 434 million bottles (bags), representing an increase of 24% as compared to last year, of which, output of 191 million soft bag products recorded an increase of 48% as compared to last year, further demonstrating the economies of scale of such business. Profit for the first half of the year has maintained at an industry-leading level. The further increase in gross profit margin of intravenous infusion solution business has continued to provide strong support and boost to the development of the Group as a whole.

Meanwhile, we have participated in the centralized drug procurement tenders in some provinces, districts or cities such as Jilin, Ningxia, Gansu, Qinghai and Guangdong in the PRC, where our leading products such as soft bags have enjoyed prominent advantages in winning bids. This has supported our further reinforcement and expansion of domestic markets.

Infusion solution export and processing business has continued to grow. Apart from expanding South-east Asian markets such as Vietnam and Cambodia, we have opened up international markets through various channels. In the first half of the year, export sales recorded a period-to-period increase of 25.6%. Export business has become an important component of the Company's operation.

In respect of Xi'an Lijun, both antibiotic and generic drug businesses have performed unsatisfactorily. Sales of Lijunsha and Paiqi, two major antibiotic products, recorded a decrease of 18.0% and 16.3% respectively as compared to the corresponding period last year. Sales of Dobesilate, a cardiovascular product, and Lixiding have seen obvious growth of 20.3% and 12.4% respectively. In general, Xi'an Lijun recorded a decrease in sales of 7.0%.

2. Commencement of production and achievement of efficiency of key projects, and manifestation of investment effect. As at the end of June, construction works for infrastructure in the relocation and upgrade project of headquarters in the High-tech Development Zone, a project of strategic importance to the development of the Company, has been completed. Six infusion solution production lines developed in the early stages passed the national 2010 GMP certification and obtained certifications in March 2014, and currently have commenced full production and operation. We are now stepping up the development of subsequent soft bag infusion solution production lines and modernization of Chinese medicine projects, and expect to apply for national GMP certification in the fourth quarter. Our market advantage will be further consolidated and strengthened with the creation of new production scale.

3. Effective product development. The Company has implemented a motivating project responsibility system to promote innovation. In the first half of the year, 49 production permits for specifications add-in, alteration and packaging materials were obtained for new 100ml Pediatric Electrolyte Supplements Injection, 3,000ml Mannitol Injection, and 1,000ml Sodium Lactate Ringer's Injection. Meanwhile, 15 certificates or notices of authorization of invention, utility model and design patents were obtained for a conveying system of easily-dampened powdered raw materials, vertical PVC infusion bags, an interface structure for plastic infusion bags, a dual-chamber bag for infusion, a plastic ampoule for injection, and interface connectors for plastic infusion bags, etc. Fruitful innovative

results were achieved. At the same time, the cooperation platform for production, teaching and research jointly established by schools of pharmacy of universities such as Tianjin University and Zhejiang University under the support of the Company has commenced scientific research projects such as “Demonstration Project for Industrialization of Safety Control Technology of Soft-packaging Infusion” and “Development and Industrialization of Balanced Salt Solution”, in a bid to enhance the R&D and industrialization levels of superior products.

Looking into the second half of 2014, the pharmaceutical industry in the PRC will be full of opportunities and challenges for development. Centralized commencement of drug procurement tenders in various regions and stringent measures against unfair competition in the industry will create a better market environment for the inelastic demand and systematic competition of drugs. Falling prices, re-allocation of corporate interests and lack of innovation will remain constraints and problems to the development of pharmaceutical companies. The Company will address these difficulties by leveraging its advantages in scale and brand to further improve its product structure. The Company will expand and refine its product market by capitalizing on market consolidation, to achieve steady and rapid growth in sales and profit.

3. PROSPECTS FOR DEVELOPMENT

(1) **Market-oriented to capture market opportunities, and increase market share and efficiency**

We will continue to coordinate domestic and overseas markets, implement differentiating marketing measures, do our best in the bidding and market development of superior products such as soft bags (including double soft tube and double hard tube), vertical soft infusion bags and rinsing solutions, and further increase the profitability of infusion solution products, with the aim of maintaining the superiority of soft bag products in the industry.

We will continue to focus on the development of international markets, and commence foreign trade and processing businesses through various channels and forms by participating in important international trade fairs, and applying for international product registration and certification, in order to maintain a growth rate of over 30% for our foreign trade business.

(2) Acceleration of R&D to develop featured products and innovative technologies for sustainable business growth by leveraging on our advantages

We will continue to promote the coordinated development of intravenous infusion solutions and oral preparations, and expedite the implementation of product development projects to maintain our core competitive edge. We will strive to obtain clinical approval for Arbidol Hydrochloride Dry Suspension and 10 production permits for supplementary application for Compound Mannitol Injection and packaging materials for infusion drugs in this year. Meanwhile, we will increase new product reserve and improve product structure to boost business transformation and upgrade and new product industrialization, thereby strengthening our market competitiveness, and expanding our product variety and profit stream.

(3) Acceleration of project construction to provide support and protection for the Group's continuous development

In the second half of the year, the two production lines for double-outlet soft bag infusion solutions under construction in the relocation and upgrade project of headquarters in the High-tech Development Zone has entered equipment commissioning phase. Conditions for certification application are expected to be fulfilled by the end of August, and GMP certification is expected to be completed in the fourth quarter. Projects on modernization of Chinese medicine extraction and upgrade of 1,000ml and 500ml PP plastic bottle infusion solution production lines

are currently underway. We are working on equipment installation and commissioning. To pass the national GMP certification in this year, we must maintain infusion solution production volume, quality and efficiency and consolidate our leading position in the industry by accelerating new project construction and old production line upgrade.

In short, in the face of tough market conditions, the Company will adopt a new mindset, make active response and use all means to expand the sales market, in order to improve the quality and efficiency of the Company's operation, and generate satisfactory returns for investors. We are confident in the future development of the Company.

Qu Jiguang
Chairman of the board of directors of
Lijun International Pharmaceutical (Holding) Co., Ltd.

Hong Kong, 28 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

SALES

The Group's total sales increased from HK\$1,410,483,000 for the corresponding period last year by 8.3% to HK\$1,527,165,000 for the six months ended 30 June 2014.

	For the six months ended 30 June				
	2014		2013		Change %
	Sales HK\$'000	Percentage of sales %	Sales HK\$'000	Percentage of sales %	
Intravenous infusion solution and others	996,435	65.2	840,110	59.6	18.6
(Including: Non-PVC soft bag infusion solution)	545,900	35.7	386,010	27.4	41.4
PP plastic bottle infusion solution	279,586	18.3	233,238	16.5	19.9
Antibiotics	270,172	17.7	330,120	23.4	(18.2)
(Including: Lijunsha Paiqi)	157,374	10.3	191,883	13.6	(18.0)
	45,169	3.0	53,975	3.8	(16.3)
Non-antibiotics finished medicines	218,799	14.3	182,571	12.9	19.8
(Including: Dobesilate Lixiding)	53,787	3.5	44,704	3.2	20.3
	22,372	1.5	19,898	1.4	12.4
Sales of bulk pharmaceuticals	41,759	2.8	57,567	4.1	(27.5)
Others	—	0.0	115	0.0	(100)
Group's total sales	1,527,165	100	1,410,483	100	8.3

INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma") and there were 3 forms of packing in intravenous infusion products, namely Glass Bottle, PP Plastic Bottle and Non-PVC Soft Bag. Total sales of Shijiazhuang No. 4 Pharma for the six months ended 30 June 2014 was HK\$996,435,000 (30 June 2013: HK\$840,110,000), in which sales of intravenous infusion solution products accounted for HK\$930,875,000 (30 June 2013: HK\$755,444,000).

Among the intravenous infusion solution products, sales of PP Plastic Bottle Infusion Solution was HK\$279,586,000, an increase of 19.9% as compared with corresponding period of last year and accounted for 30.0% of total sales of intravenous infusion solution; sales of Non-PVC Soft Bag Infusion Solution was HK\$545,900,000, an increase of 41.4% as compared with corresponding period of last year and accounted for 58.6% of total sales of intravenous infusion solution; sales of Glass Bottle Infusion Solution was HK\$105,389,000, a decrease of 22.6% as compared with corresponding period of last year and accounted for 11.4% of total sales of intravenous infusion solution. The increase in sales was mainly attributable to expansion in production capacity.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the PP Plastic Bottle Infusion Solution and Non-PVC Soft Bag Infusion Solution. It is believed that the intravenous infusion solution business will be one of the growth drivers of the Group in the coming years.

ANTIBIOTICS

For the six months ended 30 June 2014, sales of Lijunsha decreased by 18.0% to HK\$157,374,000 (30 June 2013: HK\$191,883,000), sales of Paiqi decreased by 16.3% to HK\$45,169,000 (30 June 2013: HK\$53,975,000) and sales of other antibiotics finished products decreased by 19.7% to HK\$67,629,000 (30 June 2013: HK\$84,262,000). Overall sales of antibiotics finished medicines decreased by 18.2% to HK\$270,172,000 (30 June 2013: HK\$330,120,000).

Reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 23.4% for the six months ended 30 June 2013 to 17.7% for the six months ended 30 June 2014, and sales proportion of Lijunsha accounted for only 10.3% of the total Group's sales for the six months ended 30 June 2014, comparing to 13.6% in the same period last year.

NON-ANTIBIOTICS FINISHED MEDICINES

Sales of the Group's non-antibiotics finished medicines increased by 19.8% to HK\$218,799,000 (30 June 2013: HK\$182,571,000). Among which, sales of Dobesilate increased by 20.3% to HK\$53,787,000 (30 June 2013: HK\$44,704,000) and sales of Lixiding increased by 12.4% to HK\$22,372,000 (30 June 2013: HK\$19,898,000).

BULK PHARMACEUTICALS

Export sales of bulk pharmaceuticals for the six months ended 30 June 2014 amounted to HK\$41,759,000, decreased by 27.5% as compared to the corresponding period last year of HK\$57,567,000.

COST OF GOODS SOLD AND GROSS PROFIT

Cost of goods sold increased by 2.4% to HK\$799,237,000 for the six months ended 30 June 2014 as compared to the corresponding period last year of HK\$780,636,000. The cost of direct materials, direct labour and other costs represented approximately 73%, 10% and 17% of the total cost of goods sold respectively, while their comparative percentage for 2013 were 71%, 13% and 16% respectively.

For the six months ended 30 June 2014, the Group recorded a total gross profit of HK\$727,928,000. Overall gross profit margin had increased by 3.0 percentage point to 47.7% for the six months ended 30 June 2014, from 44.7% for the corresponding period last year. The increase of gross profit margin was due to the factors that include the expansion of production capacity of intravenous infusion products especially on high profit margin items.

SELLING AND MARKETING EXPENSES

For the six months ended 30 June 2014, selling and marketing expenses amounted to approximately HK\$193,084,000 (30 June 2013: HK\$245,369,000), which mainly consisted of advertising expenses of approximately HK\$11,752,000 (30 June 2013: HK\$36,632,000), sales commission of approximately HK\$40,451,000 (30 June 2013: HK\$78,549,000), salary expenses of sales and marketing staff of approximately HK\$30,368,000 (30 June 2013: HK\$21,372,000) and transportation cost of approximately HK\$66,846,000 (30 June 2013: HK\$75,146,000).

Selling and marketing expenses decreased by 21.3% for the six months ended 30 June 2014 as compared with that of the corresponding period last year mainly due to the Group's tighter control on selling and marketing expenses on sales of intravenous infusion solution.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the six months ended 30 June 2014 was HK\$155,865,000 (30 June 2013: HK\$140,937,000) which mainly comprised of salaries expenses for the administrative staff of approximately HK\$70,949,000 (30 June 2013: HK\$63,466,000), and depreciation and amortisation of approximately HK\$26,923,000 (30 June 2013: HK\$22,073,000).

The increase of 10.6% in general and administrative expense as compared to that of the corresponding period last year was mainly attributable to expansion of the Group's operations, increase in salaries expenses for the administrative staff.

OPERATING PROFIT

For the six months ended 30 June 2014, the Group's operating profit amounted to HK\$395,347,000 representing an increase of 34.1% as compared to that of the corresponding period last year with operating profit margin (defined as operating profit divided by total sales) increased from 20.9% to 25.9%.

FINANCE COSTS

The Group's finance costs for the period amounted to HK\$46,213,670 (30 June 2013: HK\$24,022,000) including HK\$9,228,670 capitalized in property, plant and equipment (30 June 2013: Nil), of which HK\$38,645,670 (30 June 2013: HK\$22,980,000) related to bank borrowings. The increase in finance costs as compared to that of the corresponding period last year was due to the increase in bank loan and interest rate.

INCOME TAX EXPENSE

Both Xi'an Lijun and Shijiazhuang No. 4 Pharma had obtained the high-tech enterprise certification recognition and entitled to enjoy a 15% preferential income tax policy for the years from 2012 to 2014. For the six months ended 30 June 2014, the overall income tax expense amounted HK\$60,377,000 (30 June 2013: HK\$44,161,000).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company for the six months ended 30 June 2014 increased by 32.2% to HK\$300,627,000 while net profit margin (defined as profit attributable to equity holders of the Company for the period divided by total sales) increased from 16.1% to 19.7% for the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 30 June 2014, the cash and cash equivalents aggregated to HK\$468,166,000 (31 December 2013: HK\$336,928,000), comprising HK\$304,159,000 (31 December 2013: HK\$247,913,000) of cash and cash equivalents denominated in Renminbi ("RMB"), HK\$137,934,000 (31 December 2013: HK\$86,060,000) in Hong Kong dollars and HK\$26,073,000 (31 December 2013: HK\$2,955,000) in other currencies.

As at 30 June 2014, the Group has pledged bank deposits amounting to HK\$7,535,000 (31 December 2013: HK\$90,051,000) as guarantee of banks borrowings, bills payable and letters of credit facilities.

The carrying amounts of the borrowings amounting to HK\$1,431,061,000 as at 30 June 2014 (31 December 2013: HK\$1,187,793,000), comprising HK\$1,095,822,000 (31 December 2013: HK\$896,494,000) of borrowings denominated in RMB, HK\$203,150,000 (31 December 2013: HK\$162,920,000) in Hong Kong dollars and HK\$132,089,000 (31 December 2013: HK\$128,379,000) in other currencies.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital) increased from 22.9% as at 31 December 2013 to 30.6% as at 30 June 2014.

Current ratio (defined as current assets divided by current liabilities) increased from 1.11 as at 31 December 2013 to 1.21 as at 30 June 2014.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and Hong Kong dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited. Hence, no financial instrument for hedging was employed. The Group is closely monitoring the financial market and would consider appropriate measures if required.

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2014.

PLEDGE OF ASSETS

As at 30 June 2014, the net book amount of the Group's land use right of HK\$70,995,000 (31 December 2013: HK\$72,647,000), the net book amount of the Group's buildings, plant and machineries of HK\$392,019,000 (31 December 2013: HK\$418,769,000) and bank deposits of HK\$7,535,000 (31 December 2013: HK\$90,051,000) were pledged as collateral for the Group's bank borrowings and bills payable.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities.

INTERIM DIVIDEND

The Directors resolved to pay on 14 November 2014 an interim dividend and a special dividend of HK3 cents and HK3 cents per share (amounting to a total of approximately HK\$177.2 million) respectively for the six months ended 30 June 2014 to the shareholders named in the register of members of the Company on 17 September 2014.

EXCHANGE RATE

As at 2014 and 2013, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2013	0.81085
30 June 2013	0.79655
31 December 2013	0.78623
30 June 2014	0.79375

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2014.

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Old Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of the offer for grant of options, subject to the terms and conditions of Old Share Option Scheme and any conditions of grant as may be stipulated by the Board.

As at 7 August 2008, the Company granted 100,000,000 share options under the Old Share Option Scheme, representing about 4.93% of the issued share capital as at the date immediately before the options were granted to directors and senior management of the Group. The exercise price was HK\$0.7. As at 4 October 2010, all of the 100,000,000 share options granted were exercised.

As at 3 May 2012, the Company granted 40,000,000 share options (being adjusted to 48,000,000 share options as a result of the Bonus Issue on 16 October 2012) under Old Share Option Scheme, representing about 1.64% of the issued share capital as at the date immediately before the options were granted to directors of the Group. The exercise price was HK\$1.78 (being adjusted to HK\$1.48 as a result of the Bonus Issue on 16 October 2012).

As at 30 June 2014, 48,000,000 share options were granted under Old Share Option Scheme and 24,000,000 share options were exercised on 24 June 2014 that 24,000,000 ordinary shares of the Company has been issued. Another 24,000,000 share options were remained outstanding.

During the year of 2012, the Board proposed the termination of Old Share Option Scheme and the adoption of the existing share option scheme (“Existing Share Option Scheme”) which were approved by an ordinary resolution passed by the shareholders at the EGM held on 20 September 2012. The operation of Old Share Option Scheme was terminated such that no further share option could thereafter be offered under Old Share Option Scheme but in all other respects the provisions of Old Share Option Scheme shall remain in full force and effect.

Existing Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the “Scheme Period”) unless terminated earlier by shareholders in general meeting. The purpose of Existing Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Existing Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Existing Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Pursuant to Existing Share Option Scheme, the offer for grant of options (“Offer”) must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK\$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Existing Share Option Scheme and any conditions of grant as may be stipulated by the Board.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Existing Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Existing Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the “Scheme Mandate”). The Scheme Mandate may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the issued share capital of the Company at the date of the shareholders’ approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Existing Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders’ approval is obtained under the terms of Existing Share Option Scheme.

As at 30 June 2014, no option has been granted under Existing Share Option Scheme since its adoption.

EMPLOYEES AND REMUNERATION POLICY

The remuneration of the directors is determined by the Board, with reference to the prevailing market practice, the Company's remuneration policy, duties and responsibilities of the Directors and their contributions to the Group.

As at 30 June 2014, the Group had approximately 4,700 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the remuneration policy of employees is based on industry practice.

The remuneration policy of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the six months ended 30 June 2014 was HK\$186,824,000 (30 June 2013: HK\$186,584,000).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 30 June 2014, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) in Appendix 10 of the Listing Rules once the Shares are listed, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner	136,600,000	4.62%
	Interest in a controlled corporation (<i>Note 1</i>)	722,510,000	24.46%

Note:

- These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited (“CPCL”). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of 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 section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time for the six months ended 30 June 2014 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 30 June 2014, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of shares	% of the issued share capital of the Company
CPCL	Beneficial owner	722,510,000 <i>(Note 1)</i>	24.46%
Mr. Qu Jiguang	Beneficial owner	136,600,000	4.62%
	Interest of controlled corporation	722,510,000 <i>(Note 1)</i>	24.46%
Value Partners Group Limited	Interest of controlled Corporation	233,632,000 <i>(Note 2)</i>	7.91%
Value Partners Classic Fund	Beneficial owner	188,938,000 <i>(Note 3)</i>	6.40%

Note:

1. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.
2. These Shares are held by the Funds under Value Partners Limited's management, which Value Partners Limited is wholly-owned by Value Partners Hong Kong Limited. Value Partners Hong Kong Limited is wholly-owned by of Value Partners Group Limited. Pursuant to the SFO, Value Partners Group Limited is deemed to be interested in these shares.
3. The fund manages by Value Partners Limited.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the six months ended 30 June 2014.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (formerly the "Code on Corporate Governance Practices") (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") including those revised code provisions which became effective on 1 April 2012. During the period, the Company has complied with all applicable provisions of CG Code for their respective applicable periods with deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Qu Jiguang, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Qu will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

INDEPENDENT REVIEW OF AUDITORS

The Interim Financial Information for the six months ended 30 June 2014 has been reviewed by the auditor of the Company, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

AUDIT COMMITTEE

The Audit Committee has reviewed and approved the Interim Financial Information for the six months ended 30 June 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 18 September 2014 to Monday, 22 September 2014 (both days inclusive), during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 17 September 2014.

On behalf of the Board

Qu Jiguang

Chairman

Hong Kong, 28 August 2014



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF
LIJUN INTERNATIONAL PHARMACEUTICAL (HOLDING) CO., LTD.**

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 2 to 21, which comprises the interim condensed consolidated balance sheet of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888*



羅兵咸永道

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2014

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Note	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
ASSETS			
Non-current assets			
Land use rights	7	377,915	386,295
Property, plant and equipment	7	2,779,992	2,438,408
Intangible assets	7	325,369	322,995
Deferred income tax assets		21,790	25,050
Available-for-sale financial assets		162	164
Total non-current assets		3,505,228	3,172,912
Current assets			
Inventories		361,489	404,911
Trade and bills receivables	8	1,020,757	934,193
Financial assets at fair value through profit or loss		5,003	—
Prepayments, deposits and other receivables		169,325	144,913
Pledged bank deposits		7,535	90,051
Cash and cash equivalents		468,166	336,928
Total current assets		2,032,275	1,910,996
Total assets		5,537,503	5,083,908
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	9	65,885	65,405
Reserves	10		
— Proposed dividends		177,236	58,599
— Others		2,874,179	2,742,265
		3,117,300	2,866,269
Non-controlling interests		632	627
Total equity		3,117,932	2,866,896

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Note	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	13	684,163	455,019
Deferred income tax liabilities		30,839	26,905
Deferred revenue		16,861	10,863
Post-employment benefit obligation	11	10,880	9,289
Total non-current liabilities		742,743	502,076
Current liabilities			
Trade and bills payables	12	403,881	490,461
Advanced receipts from customers		25,546	36,503
Dividends payable		7,269	—
Accruals and other payables		468,070	415,371
Borrowings	13	746,898	732,774
Income tax payable		25,164	39,827
Total current liabilities		1,676,828	1,714,936
Total liabilities		2,419,571	2,217,012
Total equity and liabilities		5,537,503	5,083,908
Net current assets		355,447	196,060
Total assets less current liabilities		3,860,675	3,368,972

The notes on pages 32 to 52 form an integral part of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements on page 24 to 52 were approved by the Board of Directors on 28 August 2014 and were signed on its behalf.

QU JIGUANG
DIRECTOR

WANG XIANJUN
DIRECTOR

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Note	Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Revenue	6	1,527,165	1,410,483
Cost of sales		(799,237)	(780,636)
Gross profit		727,928	629,847
Other gains — net		16,368	51,365
Selling and marketing costs		(193,084)	(245,369)
General and administrative expenses		(155,865)	(140,937)
Operating profit	14	395,347	294,906
Finance income		2,653	611
Finance costs		(36,985)	(24,022)
Finance costs — net		(34,332)	(23,411)
Profit before income tax		361,015	271,495
Income tax expenses	15	(60,377)	(44,161)
Profit for the period		300,638	227,334
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		(26,603)	46,645
Total comprehensive income for the period		274,035	273,979

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2014	2013
		HK\$'000	HK\$'000
Profit attributable to:			
— Equity holders of the Company		300,627	227,330
— Non-controlling interests		11	4
		300,638	227,334
Total comprehensive income attributable to:			
— Equity holders of the Company		274,030	273,964
— Non-controlling interests		5	15
		274,035	273,979
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)			
— Basic	17	0.1026	0.0776
— Diluted	17	0.1022	0.0773

The notes on page 32 to 52 form an integral part of this interim condensed consolidated financial information.

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2014	2013
		HK\$'000	HK\$'000
Dividends (proposed)	16	177,236	58,599

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Unaudited				
	Attributable to equity holders of the Company			Non-controlling interests	Total equity
	Share capital	Reserves	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2014	65,405	2,800,864	2,866,269	627	2,866,896
Comprehensive income					
Profit for the period	—	300,627	300,627	11	300,638
Other comprehensive income					
Currency translation differences	—	(26,597)	(26,597)	(6)	(26,603)
Total comprehensive income	—	274,030	274,030	5	274,035
Transactions with equity holders					
Issuance of shares:					
— Exercise of share options	480	35,120	35,600	—	35,600
Dividends paid to equity holders of the Company	—	(58,599)	(58,599)	—	(58,599)
Total transactions with equity holders	480	(23,479)	(22,999)	—	(22,999)
Balance at 30 June 2014	65,885	3,051,415	3,117,300	632	3,117,932

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Unaudited				
	Attributable to equity holders of the Company			Non- controlling interests	Total equity
	Share capital	Reserves	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2013	65,405	2,423,087	2,488,492	604	2,489,096
Comprehensive income					
Profit for the period	—	227,330	227,330	4	227,334
Other comprehensive income					
Currency translation differences	—	46,634	46,634	11	46,645
Total comprehensive income	65,405	2,697,051	2,762,456	619	2,763,075
Transactions with equity holders					
Dividends paid to equity holders of the Company	—	(58,599)	(58,599)	—	(58,599)
Total transactions with equity holders	—	(58,599)	(58,599)	—	(58,599)
Balance at 30 June 2013	65,405	2,638,452	2,703,857	619	2,704,476

The notes on page 32 to 52 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
Cash flows from operating activities			
Cash generated from operations		504,338	466,670
Interest paid		(29,417)	(22,980)
Income tax paid		(65,970)	(49,514)
Net cash generated from operating activities		408,951	394,176
Cash flows from investing activities			
Purchase of land use rights		—	(69,745)
Purchase of property, plant and equipment		(620,594)	(371,059)
Purchase of intangible assets		(8,006)	(285)
Proceeds from disposals of property, plant and equipment		36,935	(566)
Purchase of financial assets at fair value through profit or loss		(40,520)	(52,511)
Proceeds from sale of financial assets at fair value through profit or loss		35,016	46,154
Interest received		2,653	611
Net cash used in investing activities		(594,516)	(447,401)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
Cash flows from financing activities			
Proceeds from exercise of share options		35,600	—
Proceeds from bank borrowings	13	555,209	434,107
Repayments of bank borrowings	13	(302,248)	(297,511)
Dividends paid to equity shareholders of the Company		(51,329)	(47,642)
Decrease/(increase) of pledged bank deposits		82,517	(18,206)
Net cash generated from financing activities		319,749	70,748
Net increase in cash and cash equivalents		134,184	17,523
Cash and cash equivalents at beginning of the year		336,928	411,783
Effect of foreign exchange rate changes on cash and cash equivalents		(2,946)	4,813
Cash and cash equivalents at end of the year		468,166	434,119

The notes on page 32 to 52 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

1 GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("Mainland China"), and sells to customers mainly in the Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of the Company's 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 (the "Stock Exchange") since 20 December 2005.

This interim condensed consolidated financial information is presented in Hong Kong dollars ("HK\$"), unless otherwise stated. This interim condensed consolidated financial information was approved for issue by the Company's Board of Directors on 28 August 2014.

This interim condensed consolidated financial information has been reviewed, not audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2013, as described in those annual consolidated financial statements.

3 ACCOUNTING POLICIES *(Continued)*

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2014:

HKAS 36 (Amendment) "Impairment of assets" is effective for annual periods beginning on or after 1 January 2014. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

HK (IFRIC) Interpretation 21 "Levies" is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of HKAS 37 "Provisions, contingent liabilities and contingent assets". HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
Amendment to HKAS 39	Financial Instruments: Recognition and measurement, on novation of derivatives	1 January 2014
HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for investment entities	1 January 2014

3 ACCOUNTING POLICIES *(Continued)*

(c) **The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2014 and have not been early adopted by the Group:**

		Effective for annual periods beginning on or after
Amendments to HKAS 19	Defined benefit plans	1 July 2014
HKFRS 2	Share-based payment	1 July 2014
HKFRS 3	Business combinations	1 July 2014
HKFRS 8	Operating segments	1 July 2014
HKFRS 13	Fair value measurement	1 July 2014
HKAS 16	Property, plant and equipment	1 July 2014
HKAS 24	Related party disclosures	1 July 2014
HKAS 37	Provisions, contingent liabilities and contingent assets	1 July 2014
HKAS 38	Intangible assets	1 July 2014
HKAS 39	Financial instruments — Recognition and measurement	1 July 2014
HKAS 40	Investment property	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11	Joint arrangements	1 January 2016
Amendments to HKAS 16	Property, plant and equipment	1 January 2016
Amendments to HKAS 38	Intangible assets	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

None of these new and amended standards is expected to have a significant effect on the interim condensed consolidated financial statements of the Group.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

5.2 Liquidity risk

Compared to the previous year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5.3 Fair value estimation

The different levels of financial instruments carried at fair value, by valuation method, have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of 30 June 2014, the Group has financial assets at fair values through profit or loss, amounted to HK\$5,003,000 (31 December 2013: Nil), the fair value of which was recorded during the period ended 30 June 2014 based on quoted market prices at the reporting date (level 1).

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value estimation *(Continued)*

The carrying values of receivables (net of impairment provision) and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

For the six months ended 30 June 2014, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. Moreover, there were no significant reclassifications of financial assets.

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from a product perspective, which assesses the performance of two product segments, namely intravenous infusion solution and others and antibiotics and others.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of revenue and profit. This measurement is consistent with that in the annual consolidated financial statements.

Unallocated operating loss mainly represents corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate dividends payable.

The revenue from external parties reported to the management is measured in a manner consistent with that in the interim condensed consolidated statement of comprehensive income.

6 **SEGMENT INFORMATION** (Continued)

	Unaudited			Total HK\$'000
	Intravenous infusion solution and others <i>HK\$'000</i>	Antibiotics and others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	
Six months ended 30 June 2014				
Revenue	996,435	530,730	—	1,527,165
Operating profit/(loss) segment results	349,673	54,094	(8,420)	395,347
Finance income	2,509	144	—	2,653
Finance costs	(29,446)	(7,017)	(522)	(36,985)
Profit/(loss) before income tax	322,736	47,221	(8,942)	361,015
Income tax expenses	(47,800)	(6,547)	(6,030)	(60,377)
Profit/(loss) for the period	274,936	40,674	(14,972)	300,638

	Unaudited			Total HK\$'000
	Intravenous infusion solution and others <i>HK\$'000</i>	Antibiotics and others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	
Six months ended 30 June 2013				
Revenue	840,110	570,373	—	1,410,483
Operating profit/(loss) segment results	261,295	42,510	(8,899)	294,906
Finance income	469	142	—	611
Finance costs	(17,230)	(6,792)	—	(24,022)
Profit/(loss) before income tax	244,534	35,860	(8,899)	271,495
Income tax expenses	(38,181)	(5,980)	—	(44,161)
Profit/(loss) for the period	206,353	29,880	(8,899)	227,334

6 SEGMENT INFORMATION (Continued)

	Unaudited			
	Intravenous infusion solution and others <i>HK\$'000</i>	Antibiotics and others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2014				
Total assets	3,927,111	1,503,648	106,744	5,537,503
Total liabilities	1,844,132	555,328	20,111	2,419,571
	Audited			
	Intravenous infusion solution and others <i>HK\$'000</i>	Antibiotics and others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2013				
Total assets	3,654,107	1,427,048	2,753	5,083,908
Total liabilities	1,740,963	474,576	1,473	2,217,012

7 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Unaudited				
	Land use rights	Property, plant and equipment	Goodwill	Other intangible assets	Total intangible assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2014					
Opening net book amount as at 1 January 2014	386,295	2,438,408	256,348	66,647	322,995
Additions	—	487,712	—	8,006	8,006
Disposals	—	(37,156)	—	—	—
Depreciation/Amortisation	(4,742)	(83,819)	—	(2,546)	(2,546)
Exchange differences	(3,638)	(25,153)	(2,429)	(657)	(3,086)
Closing net book amount as at 30 June 2014	377,915	2,779,992	253,919	71,450	325,369
Six months ended 30 June 2013					
Opening net book amount as at 1 January 2013	239,241	1,630,224	248,610	62,354	310,964
Additions	69,130	381,958	—	285	285
Disposals	—	(554)	—	—	—
Depreciation/Amortisation	(3,407)	(67,834)	—	(2,009)	(2,009)
Exchange differences	5,505	32,143	4,417	1,105	5,522
Closing net book amount as at 30 June 2013	310,469	1,975,937	253,027	61,735	314,762

As at 30 June 2014, the Group's land use rights and property, plant and equipment with net book amounts of HK\$70,995,000 (31 December 2013: HK\$72,647,000) and HK\$392,019,000 (31 December 2013: HK\$418,769,000) respectively were pledged as collateral for the Group's bank borrowings (Note 13).

During the period, the Group has capitalized borrowing costs, including interest expenses amounting to HK\$9,228,670 (six months ended 30 June 2013: Nil) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its borrowings of 6.48% (six months ended 30 June 2013: Nil).

8 TRADE AND BILLS RECEIVABLES

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables based on revenue recognition date is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Within 3 months	825,836	776,761
4 to 6 months	128,473	77,251
7 to 12 months	38,138	51,176
1 to 2 years	31,010	29,557
2 to 3 years	21,897	22,477
More than 3 years	9,330	9,570
	1,054,684	966,792
Less: Provision for impairment	(33,927)	(32,599)
	1,020,757	934,193

9 SHARE CAPITAL

	Number of shares '000	Ordinary shares HK\$'000
Authorised		
At 31 December 2013 and 30 June 2014 (ordinary shares with par value of HK\$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2014	2,929,925	65,405
Issuance of shares — exercise of share options (Note 10)	24,000	480
At 30 June 2014 (unaudited)	2,953,925	65,885
At 1 January 2013 and 30 June 2013 (unaudited)	2,929,925	65,405

10 RESERVES (Continued)

	Unaudited						
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Currency translation differences <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	1,262,730	176,819	273,859	15,530	161,407	910,519	2,800,864
Dividends paid to equity holders of the Company	—	—	—	—	—	(58,599)	(58,599)
Profit for the period	—	—	—	—	—	300,627	300,627
Issuance of shares — exercise of share options (a)	35,120	—	—	—	—	—	35,120
Currency translation differences	—	—	(2,644)	—	(23,953)	—	(26,597)
At 30 June 2014	1,297,850	176,819	271,215	15,530	137,454	1,152,547	3,051,415
At 1 January 2013	1,262,730	176,819	234,220	15,530	86,094	647,694	2,423,087
Dividends paid to equity holders of the Company	—	—	—	—	—	(58,599)	(58,599)
Profit for the period	—	—	—	—	—	227,330	227,330
Currency translation differences	—	—	4,290	—	42,344	—	46,634
At 30 June 2013	1,262,730	176,819	238,510	15,530	128,438	816,425	2,638,452

10 RESERVES *(Continued)*

- (a) On 24 June 2014, 24,000,000 share options (being adjusted from 20,000,000 share options as a result of the issuance of bonus shares on 16 October 2012) were exercised. Options exercised in 2014 which resulted in 24,000,000 shares being issued at HK\$0.02 each. The related weighted average share price at the time of exercise was HK\$1.48 per share (being adjusted from HK\$1.78 as a result of issuance of bonus share on 16 October 2012). The total cash received is HK\$35,600,000.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average Exercise Price <i>(HK\$ per share)</i>	Number of Options <i>(thousands)</i>
At 1 January 2013	1.48	48,000
Exercised	1.48	(24,000)
At 30 June 2013	1.48	24,000

Details of share options outstanding at 30 June 2014 are as follows:

Exercisable from	Expiry date	Average Exercise Price <i>(HK\$ per share)</i>	Number of Options <i>(thousands)</i>
3 May 2012	2 May 2015	1.48	24,000

The weighted average fair value of options granted on 3 May 2012 determined by using the Binomial Model was HK\$0.39 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 62.15%, expected dividend yield of 2.26% and risk-free interest rate of 0.32%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date. The expected volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices of the Company over the last three years. The expected dividend yield is measured based on the dividend yield per the Company as projected by Bloomberg, which agree to the Directors' best estimation based on the expected future performance and dividend policy of the Group.

11 POST-EMPLOYMENT BENEFIT OBLIGATION

The maturity profile of the post-employment benefit obligation is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Within 1 year	524	341
Between 1 to 2 years	518	337
Between 2 to 5 years	1,218	1,039
More than 5 years	9,144	7,913
	11,404	9,630
Less: Current portion included in current liabilities	(524)	(341)
	10,880	9,289

12 TRADE AND BILLS PAYABLES

Ageing analysis of trade and bills payables is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Within 3 months	252,533	384,934
4 to 6 months	73,246	72,974
7 to 12 months	60,467	25,464
1 to 3 years	15,439	4,996
More than 3 years	2,196	2,093
	403,881	490,461

13 BORROWINGS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Non-current		
Non-current portion of long-term bank borrowings	684,163	455,019
Current		
Current portion of long-term bank borrowings	91,879	250,401
Short-term bank borrowings	655,019	482,373
	746,898	732,774
Total borrowings	1,431,061	1,187,793
Representing:		
Unsecured	585,827	400,647
Secured (i)	631,008	658,767
Guaranteed (ii)	214,226	128,379
	1,431,061	1,187,793

- (i) As at 30 June 2014, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK\$70,995,000 (31 December 2013: HK\$72,647,000), the Group's buildings, plant and machinery with a net book amount of HK\$392,019,000 (31 December 2013: HK\$418,769,000) (Note 7).
- (ii) As at 30 June 2014, certain of the Group's bank borrowings were guaranteed by the Company (31 December 2013: the Company and Xi'an Lijun Pharmaceutical Co., Ltd., a wholly owned subsidiary of the Company).

Interest expenses on bank borrowings for the six months ended 30 June 2014 were HK\$38,645,670 (six months ended 30 June 2013: HK\$22,980,000), including HK\$9,228,670 capitalized in property, plant and equipment (six months ended 30 June 2013: Nil).

13 BORROWINGS *(Continued)*

Movements in borrowings were analysed as follows:

	Unaudited <i>HK\$'000</i>
Six months ended 30 June 2014	
As at 1 January 2014	1,187,793
Proceeds from borrowings	555,209
Repayments of borrowings	(302,248)
Exchange differences	(9,693)
As at 30 June 2014	1,431,061
Six months ended 30 June 2013	
As at 1 January 2013	828,508
Proceeds from borrowings	434,108
Repayments of borrowings	(297,513)
Exchange differences	15,165
As at 30 June 2013	980,268

14 OPERATING PROFIT

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	<i>HK\$'000</i>
Fair value (gains)/losses on other financial assets at fair value through profit or loss	(645)	432
Gain on disposal of property, plant and equipment	(2,674)	(132)
Government grants	(16,844)	(52,311)
Depreciation of property, plant and equipment	83,819	67,834
(Reversal of)/provision for decline in value of inventories	(3,461)	121
Provision for impairment of receivables	385	4,779
Amortisation of intangible assets	2,546	2,009
Amortisation of land use rights	4,742	3,407
Foreign exchange loss/(gain), net	6,215	(558)

15 INCOME TAX EXPENSES

The Company is incorporated in the Cayman Islands as an exempted company and, accordingly, is exempted from payment of the Cayman Islands income tax. The Company had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, the subsidiary of the Company, is subject to Hong Kong profits tax at the rate of 16.5% (2013: 16.5%) on its estimated assessable profit.

All subsidiaries of the Company established and operate in PRC are subject to Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No. 4 Pharmaceutical Co., Ltd. have been recognised as High and New Tech Enterprises in 2012. According to the tax incentives rules of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High and New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

According to the PRC CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

The amounts of taxation charged to the interim condensed consolidated statement of comprehensive income:

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Current income tax	53,160	45,464
Deferred income tax	7,217	(1,303)
	60,377	44,161

16 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	<i>HK\$'000</i>
Dividend, proposed, of HK6 cents (six months ended 30 June 2013: HK2 cents) per ordinary share	177,236	58,599

At a meeting held on 28 August 2014, the directors recommended the payment of a dividend of HK6 cents per ordinary share, totalling HK\$177,236,000 in respect of the six months ended 30 June 2014. The proposed dividend has not been reflected as a dividend payable in this interim condensed consolidated financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

17 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	<i>HK\$'000</i>
Profit attributable to equity holders of the Company	300,627	227,330
Weighted average number of ordinary shares in issue (thousands)	2,930,721	2,929,925
Basic earnings per share (HK\$ per share)	0.1026	0.0776

17 EARNINGS PER SHARE (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Profit used to determine diluted earnings per share	300,627	227,330
Weighted average number of ordinary shares in issue (thousands)	2,930,721	2,929,925
Adjustment for share options (thousands)	11,497	11,500
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,942,218	2,941,425
Diluted earnings per share (HK\$ per share)	0.1022	0.0773

18 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

- (a) The directors are of the view that the following companies are related parties of the Group:

Name	Relationship
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group before 4 June 2014
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 26.28% interest in the Company before 4 June 2014
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group

PUI sold all its shares of the Company at 4 June 2014. Meanwhile, certain key management personnel of the Group have resigned at the same day from the Group. Accordingly, Rejoy Group, Rejoy Technology, Rejoy Packaging and Rejoy Medicine are no longer considered to be related parties of the Group after 4 June 2014.

18 RELATED-PARTY TRANSACTIONS (Continued)

- (b) Except for related party transactions disclosed elsewhere in this interim condensed consolidated financial information, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	Unaudited	
		Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Purchasing of raw materials and packaging materials from	— Rejoy Packaging	676	2,450
Sales of finished goods to	— Rejoy Medicine	2,396	146
Provision of utilities to	— Rejoy Packaging	1,557	107

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(c) **Key management compensation**

	Unaudited	
	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Salaries and wages	3,801	10,162

18 RELATED-PARTY TRANSACTIONS *(Continued)*

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

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Amounts due from related parties included in trade receivables — Rejoy Medicine	—	2,496
Amounts due from related parties included in other receivables — Rejoy Packaging	—	32
Amounts due to related parties included in trade payables — Rejoy Packaging	—	146

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

19 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Property, plant and equipment	186,127	230,831

19 COMMITMENTS *(Continued)*

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of office premises in the Mainland China and Hong Kong under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Not later than one year	1,703	4,059
Later than one year and not later than five years	1,084	1,573
More than five years	5,975	6,905
	8,762	12,537

20 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the 2014 interim dividend proposed are described in Note 16.