

# 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

# 2010

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## **CORPORATE INFORMATION**

### **STOCK CODE**

2005

### **EXECUTIVE DIRECTORS**

Mr. Wu Qin (*Chairman*)

Mr. Qu Jiguang

Mr. Xie Yunfeng

Mr. Huang Chao

Ms. Sun Xinglai

Mr. Wang Xianjun

Mr. Duan Wei

Ms. Zhang Guifu

Mr. Bao Leyuan

Ms. Gao Shuping

### **NON-EXECUTIVE DIRECTOR**

Mr. Liu Zhiyong

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Wang Yibing

Mr. Leung Chong Shun

Mr. Chow Kwok Wai

### **COMPANY SECRETARY AND QUALIFIED ACCOUNTANT**

Mr. Sze Wing Kin, Pierre

### **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**

Office 2809, 28th Floor, Office Tower

Convention Plaza, 1 Harbour Road

Wanchai, Hong Kong

### **AUTHORISED REPRESENTATIVES**

Mr. Wang Xianjun

Ms. Sun Xinglai

### **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

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fulcrum Group (Cayman) Limited

P.O. Box 705, Butterfield House,

68 Fort Street

George Town, Grand Cayman,

Cayman Islands

British West Indies

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor

Services Limited

17M Floor

Hopewell Centre

183 Queen's Road East, Hong Kong

### **PRINCIPAL BANKERS**

Bank of China

Bank of China (Hong Kong) Ltd.

Industrial and Commercial Bank of China

China Construction Bank

China Construction Bank (Asia)

China Merchants Bank

China Minsheng Banking Corp., Ltd.

China CITIC Bank

Hang Seng Bank

CITIC Bank International Limited

Bank of Communications

Shanghai Pudong Development Bank

Agricultural Bank of China

Shijiazhuang City Commercial Bank

### **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 (the "Board") of directors (the "Directors") of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010.

### 1. RESULTS AND DIVIDEND PAYMENT

Throughout this year, the pharmaceutical market continued to demonstrate an intensified industry competition momentum. The Group achieved satisfactory results in its operation through such measures in optimizing product and sales structure, expanding market share, enhancing technological advancement and focusing on cost control. In the first half year, the Group achieved sales income of HK\$988,814,000, increased by 14.1% as compared with the corresponding period of last year, among which, HK\$611,628,000 was from Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun"), increased by 12.0% as compared with the corresponding period of last year, and HK\$377,186,000 was from Shijiazhuang No. 4 Pharmaceutical Co., Ltd., ("Shijiazhuang No. 4 Pharma"), increased by 17.8% as compared with the corresponding period of last year. The Group achieved profit attributable to equity holders of HK\$140,278,000, increased by 25.0% as compared with the corresponding period of last year, among which, Xi'an Lijun was HK\$67,282,000, increased by 21.0% as compared with the corresponding period of last year, and Shijiazhuang No. 4 Pharma was HK\$87,857,000, increased by 32.4% as compared with the corresponding period of last year.

The Board proposed a distribution of dividends of HK\$0.02 per share for the first half year, amounting HK\$47,098,000 in aggregate.

## 2. REVIEW OF OPERATING RESULTS

### (1) Product marketing

#### 1. *By optimizing the product and sales structure of intravenous infusion solutions, improvement of the Group's efficiency was further pushed forward*

In the first half year, the Group's PP plastic bottle and non-PVC soft bag infusion solution products witnessed the further prominent competitive strengths in terms of scale of production, manufacturing costs and market share. The production volume of non-PVC soft bag infusion solution and PP plastic bottle infusion solution were increased by 66.1% and 19.8% respectively as compared with the corresponding period of last year. The sales proportion of these two infusion solutions to the total sales of infusion solution of the Group were further increased to 75.0%, up by 5.2% as compared with the corresponding period of last year. Sales of therapeutical infusion solution categories achieved relatively quicker growth, increased by 14.6% as compared with the corresponding period of last year. The Group won the bid in respect of the centralized tender activities of the procurement of pharmaceutical products by the government carried out in 18 provinces throughout the nation, thereby further consolidated and expanded our market share.

Foreign trade has also become an important channel of the Group's operation, adding six newly exporting countries including Korea, Kuwait and Burkina Faso in the first half year. As of today, we have 17 categories of products registered in 12 countries in Southeast Asia, Africa and Eastern Europe and products are sold to 45 countries and regions. The export sales of infusion solution have reached US\$2,900,000, a growth of 19.6% as compared with the corresponding period of last year.

**2. *Sound operating sentiments in antibiotics preparation***

Sales operation of our leading branded product, Lijunsha, had recorded its best in the corresponding period of recent years. Through the issuance and assessment of “Three Mandatory Plans” in monthly sales, distribution and terminals, sales of Lijunsha in the first half year was HK\$237,092,000, increased by 8.7% as compared with the corresponding period of last year, among which, cash sales of 20 tablets of Lijunsha amounted to HK\$92,374,000. Sales of Lijunsha granules in the first half year achieved a growth of 104.8% as compared with the corresponding period of last year. As we have focused much attention in maintaining the hospital, clinic and tertiary end-user market meticulously, sales of Paiqi series of products in the first half year amounted to HK\$65,725,000, increased by 37.1% as compared with the corresponding period of last year. In the first half year, the overall sales of antibiotics preparation were HK\$390,229,000, increased by 5.5% as compared with the corresponding period of last year.

While achieving a stable growth in sales, the sales operation quality continued to improve. Settlement of accounts receivables has improved significantly with account receivables turnover speeding up further.

**3. *Significant growth in sales of key brand preparation***

Through the powerful academic promotion and marketing development, sales of Dobesilate in the first half year amounted to HK\$43,760,000, increased by 27.9% as compared with the corresponding period of last year. Sales of Lixiding in the first half year amounted to HK\$18,648,000, increased by 46.0% as compared with the corresponding period of last year. By benefiting from the new policy in medical system reform and government policy support in urban communities and also the new rural markets, sales of general medicines in the first half year amounted to HK\$170,492,000, increased by 34.2% as compared with the corresponding period of last year.

**4. Remarkable growth in sales of OTC new products**

Sales of new product “Kehao”, which can clear lung, relieving cough and removing sputa was increased by 115.0% as compared with the corresponding period of last year. Sales of Weikoujia effervescent tablet in the first half year were increased by 62.0% as compared with the corresponding period of last year. Through a series of sales promotion activities, the awareness and influence of Lijungai was further enhanced. Sales of new influenza drugs like “Haogan” are expanding nationwide.

**(2) New product development**

Leveraging on industrial strengths, accelerating technological innovation and new product development, focusing on new technology, introducing and applying new techniques and improving core competitiveness continuously are the consistent strategies adhered by the Group.

1. The newly built oral preparation production line by Shijiazhuang No. 4 Pharma was formally completed and put into operation in the first half year. The co-construction of “Shaanxi Provincial Innovative Preparation Engineering Technological Center” between Xi’an Lijun and The Fourth Military Medical University was formally completed in the first half year. The project department, the doctoral workstation and administration office started to move in; and the equipments installations of preparation laboratory, raw material laboratory and analysis laboratory are complete and are at equipment testing and tuning stage. The establishment of innovative preparation center has created better conditions for the research and development of new products and new technology advancement of the Group.

2. In the first half year, the Group obtained the production licences for 2 new products: Compound Mannitol Injection and Radix Notoginseng Capsules of Radix Panacis Quinquefolii, 1 authorized national invention patent and 3 research and development supporting funds. Currently, the Group has over 80 research projects on hand and progressing at different levels. Furthermore, Arbidol Hydrochloride Capsules (the State Class II new drug) was officially listed as a recommended medicine by the *Influenza A (H1N1) Treatment Proposal (2010 version)* issued by the Ministry of Health.
3. By leveraging on our research and development capability, the Group has also undertaken the “Eleventh Five-Year” technology support key project subject of “Safety Research Study on Medicines and Packaging Materials Compatibility” of the State, and achieved significant results. “Drug Candidates New Drug on Anti Dementia MeN061016-1” has received project grants from “New Key Drug Formulation” and “13115 Key Technology Innovation” of the state government and Shaanxi government respectively. “Technology Re-engineering on Erythromycin Ethylsuccinate Crystallization” is registering as a “New Key Drug Formulation” project of “Twelfth Five-Year” and has passed the review conducted by the Ministry of Science and Technology of China. “Yilitangke”, the trademark of Gliclazide Tablets, was recognized as a renowned trademark in Hebei Province.

**(3) Issue of new share capital**

In the first half year, the issuance of new share capital of 235,000,000 shares, raising HK\$446,500,000 in capital, was completed. Together with the 92,901,109 shares converted from the convertible bonds at the end of last year, total share capital of the Company was increased by 327,901,109 shares to 2,354,904,488 shares.



### 3. DEVELOPMENT OUTLOOK

The macroeconomic environment still encounter many uncertain factors in the second half year and the pharmaceutical industry will still be facing intense competition. However, we perceive new opportunities should still exist because of the market expansion of pharmaceutical industry due to new medical reform, launching of the Group's new products and our aggressive determination. The Group will grasp every opportunity and endeavour ourselves in the following aspects:

(I) **Strive to establish and upgrade our "three business segments", enhance the Group's competitive strengths**

1. ***Consolidate and upgrade our "core business segments"***

**The first business segment is intravenous infusion solution.**

The scale of production and quality standard of PP Plastic Bottle and Non-PVC Soft Bag infusion solution products will be further escalated and improved through project establishment and reengineering and expanding of its existing production capacity. Hence, the Group is able to maintain its domestic leading advantage of quality and efficiency of intravenous infusion solutions products. The Group will strive to develop soft bag infusion solutions as well as therapeutical infusion solutions, so as to increase the proportion in sales of a series of products with comparative advantages like Ambroxol, Amino Acid, Mannitol, Tinidazole, Metronidazole, Hydroxyethyl Starch and Dextran, Ozagrel, Fluconazole, Gatifloxacin. At the same time, the Group will pay proper attention to both the mid and high end markets and new rural market to improve the overall profitability. More efforts will continue to be spent in increasing our overseas sales and focusing on the successful market development in APEC economic countries.

**The second business segment is antibiotics.** We should leverage on the sales and adjustment of our leading unmatched products Lijunsha, focus firmly on second-tier distributors, end-user propaganda and promotion activities as well as direct sales of large chain drugstores at top priority. At the same time, through inventory supply control, we procure the price of the 24s Lijunsha to rebound until reaching the conditions for price adjustment and launching of "Along Price System". We should value the supplemental and tendering activities of our nationwide exclusive Lijunsha capsule for listing on "essential drug" list in every province. While ensuring the stable increase in sales volume of lyophilized powder injection in Paiqi series, at the same time we will strive for promoting the oral intake series (capsules, dispersible tablets and dry suspension) and its sales volume increase. Sales of Limaixian and cephalosporin powder injection products will operate based on its scheduled scale of production and will strive to achieve significant growth for these products in a careful and intensive cultivation manner.

2. ***Develop and establish "business segment with high growth potential"***

**The first business segment is the cardiovascular and cerebrovascular preparations.** The Group has devoted tremendous resources to our premier brand in microvascular medicine, "Dobesilate", in recent years. While further strengthening our efforts in the development of hospital market, we will endeavour to expand Dobesilate into OTC market in the second half year to make this "double span" product achieving the RMB100,000,000 sales mark as soon as possible. We will also continue to strengthen our efforts to develop the sales of Lixiding in hospitals, forming a scale of production as soon as possible.

**The second business segment is the featured new product, OTC and health care products.** As for Arbidol Hydrochloride Capsules (the newly approved State Class II new drug), it should leverage on the advantage of the listed national recommended medicines for “Influenza A (H1N1) Treatment Proposal (2010 version)” by the State to firmly grasp the market development and sales volume expansion. We should manage “Haogan” influenza drug in four aspects including “establishing professional team, deploying agent network, valuing advertisement and propaganda and promoting through end-user”, reinforcing hospital and drugstores’ acting in concert to strive for a major breakthrough in sales volume. We will continue to enhance the various and effective promotion of Kehao and Weikoujia, focus on effective propaganda and promotion activities to facilitate growth in sales volume as soon as possible. For the two top quality health care products, Lijungai and Shengtai oral solutions, both of them possess high-tech patented technology and property rights. We will enhance the co-operation with industry associations, develop loyal consumer group gradually through flexible and various targeted marketing and promotion activities, and strive to achieve a significant breakthrough in sales volume. For various new products, including oral intake Zijin soft capsules for improving skin quality, removing speckle and “keeping vitality”, Lingzhihong oral liquid for liver protection and lowering blood glucose level, and Easy Kexin for lead expelling and brain protection, we will launch them into market as soon as possible to create new growing points.

3. ***Carefully maintaining “basic business segments”***

We value the opportunities for general medicines brought by the State’s medical system reform, treasure the general medicines tendering and supplemental activities, pay attention to the selection of relatively advantageous characteristic products for general medicines to further expand sales volume. We will improve our packing and marketing plan based on the principles of “simplified packing, convenient and practical use” for the bid-winning categories on the State’s Essential Drug List, and strive to achieve new growth in sales volume through direct supply to primary end-users.

(II) **Accelerate special project establishment and new products research and development, facilitate the changes in the methods of economic development to achieve on-going development for the Group**

1. Seriously implementing the “Project driven strategy” to promote the upgrading of the Group’s business and structure optimization. Shijiazhuang No. 4 Pharma will complete the phasing works of production capacity expansion project for intravenous infusion solutions as scheduled. We will strive to complete the infrastructure construction and equipment installation in the first half of next year, obtain the national GMP certification in the third quarter of the next year and commence the production formally. We will manage the setting up of the pharmaceutical ingredients project in producing an annual capacity of 1,000 tonnes of Hydroxyethyl Starch 40 with the trial production conditions being ready during the year. Based on the “Twelfth Five-Year Plan”, Xi’an Lijun will tighten up the further capacity expansion plan of lyophilized powder injection, production line expansion and reengineering plan of liquid injection, investigation and proofing plan in respect of the capacity expansion of 15 billion tablets and bio-fermentation production line construction project. Based on the principles of “leading technical process and technology”, we will complete the preparation of feasibility study in the third quarter, complete the project layout in the fourth quarter and endeavour to implement it as soon as possible.

2. Complete the moving in and running of innovative preparation engineering technical research center. Prepare well for the approval-listing examination carried out by Science & Technology Department of Shaanxi Province. By leveraging on the four platforms such as Lijun New Drug Research Institute, post-doctoral workstation in scientific research, national technology center and technology research center for innovative preparations projects, we will strengthen our co-operation with national level scientific research institutions, introduce pioneers in scientific technology and post-doctoral research fellows and establish expert database in science and technology to improve our capabilities in research and development.
  
3. Focus ourselves well in research and development of new products, accelerate application and approval processes of key new products, endeavor to obtain the production permits for its products, including Xantinol Nicotinate and Sodium Chloride Injection, Buflomedil Hydrochloride Sodium Chloride Injection, Hydroxyethyl Starch 200, Hydroxyethyl Starch 130, Cefixime Orally Disintegrating Tablets, Cetirizine Hydrochloride Tablets, Compound Metformin Hydrochloride and Glipizide Tablets and Lingzhihong Capsules. We will endeavour to achieve innovative breakthrough in our three core products including Type 1.1 new drug for curing Alzheimer's disease, Type 1.5 new drug for anti-influenza and new drug for gastric mucosal protection functions.

In general, we have many advantages in products, brands and quality, variety of resources, huge marketing network and strong research and development capability. Furthermore, our operating team has extensive experience in management, innovativeness, research and development and investment of new products, initiating and establishment of new projects. All these will strongly underpin the Group's development. Although there are a lot of operation difficulties in 2010, however, we are confident with our future. Through the joint and conscientious efforts of the management and all the staff, we are optimistic to deliver better results and returns to all investors in the second half year.

Finally, on behalf of the Board, I hereby express our sincere gratitude to our investors and all the management and staff for their dedicated support.

**Wu Qin**  
*Chairman*

Hong Kong, 23 August 2010

## MANAGEMENT DISCUSSION AND ANALYSIS

### SALES

The Group's total sales increased from HK\$866,347,000 for the corresponding period last year by 14.1% to HK\$988,814,000 for the six months ended 30 June 2010.

	For the six months ended 30 June				
	2010		2009		Change %
	Sales <i>HK\$'000</i>	Percentage of sales %	Sales <i>HK\$'000</i>	Percentage of sales %	
Intravenous Infusion Solution	<b>377,186</b>	<b>38.1</b>	320,173	37.0	17.8
(Including: PP Plastic Bottle Infusion Solution	<b>147,066</b>	<b>14.9</b>	133,090	15.4	10.5
Non-PVC Soft Bag Infusion Solution)	<b>109,055</b>	<b>11.0</b>	70,621	8.2	54.4
Antibiotics	<b>390,229</b>	<b>39.5</b>	369,878	42.7	5.5
(Including: Lijunsha Paiqi)	<b>237,092</b>	<b>24.0</b>	218,026	25.2	8.7
	<b>65,725</b>	<b>6.6</b>	47,951	5.5	37.1
Non-antibiotics finished medicines	<b>170,492</b>	<b>17.2</b>	127,024	14.7	34.2
(Including: Dobesilate	<b>43,760</b>	<b>4.4</b>	34,223	4.0	27.9
Lixiding	<b>18,648</b>	<b>1.9</b>	12,776	1.5	46.0
Sales of bulk pharmaceuticals	<b>50,907</b>	<b>5.2</b>	49,272	5.6	3.3
<b>Group's total sales</b>	<b>988,814</b>	<b>100</b>	866,347	100	14.1

## **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 2010 was HK\$377,186,000 (30 June 2009: HK\$320,173,000), in which sales of intravenous infusion solution products accounted for HK\$341,330,000 (30 June 2009: HK\$291,472,000).

Among the intravenous infusion solution products; sales of PP Plastic Bottle Infusion Solution and Non-PVC Soft Bag Infusion Solution was HK\$256,121,000, an increase of 25.7% as compared with corresponding period of last year and accounted for 75.0% of total sales of intravenous infusion solution; sales of Glass Bottle Infusion Solution was HK\$85,209,000, a decrease of 2.9% as compared with corresponding period of last year and accounted for 25.0% of total sales of intravenous infusion solution.

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

## **ANTIBIOTICS**

With the increase in investment by the state in medical system in small-to-medium sized cities and rural areas, and the Group's further developing the distribution network in these areas which shows a continuous growth in demand in good quality pharmaceutical products, for the six months ended 30 June 2010, sales of Lijunsha increased by 8.7% to HK\$237,092,000 (30 June 2009: HK\$218,026,000), sales of Paiqi increased by 37.1% to HK\$65,725,000 (30 June 2009: HK\$47,951,000). Overall sales of antibiotics finished medicines increased by 5.5% to HK\$390,229,000 (30 June 2009: HK\$369,878,000).

Reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 42.7% for the six months ended 30 June 2009 to 39.5% for the six months ended 30 June 2010, and sales proportion of Lijunsha accounted for only 24.0% of the total Group's sales for the six months ended 30 June 2010, comparing to 25.2% in the same period last year.



### **NON-ANTIBIOTICS FINISHED MEDICINES**

Thanks to the expanded sales network in small-to-medium sized cities and rural areas, sales of the Group's non-antibiotics finished medicines increased by 34.2% to HK\$170,492,000 (30 June 2009: HK\$127,024,000), sales of Dobesilate increased by 27.9% to HK\$43,760,000 (30 June 2009: HK\$34,223,000), sales of Lixiding increased by 46.0% to HK\$18,648,000 (30 June 2009: HK\$12,776,000).

### **BULK PHARMACEUTICALS**

Export sales of bulk pharmaceuticals for the six months ended 30 June 2010 amounted to HK\$50,907,000, increased by 3.3% as compared to the corresponding period last year of HK\$49,272,000.

### **COST OF GOODS SOLD AND GROSS PROFIT**

Cost of goods sold increased by 8.0% to HK\$479,086,000 for the six months ended 30 June 2010 as compared to the corresponding period last year of HK\$443,739,000. The cost of direct materials, direct labour and other costs represented approximately 73%, 11% and 16% of the total cost of goods sold respectively, while their comparative percentage for 2009 were 72%, 6% and 22% respectively.

For the six months ended 30 June 2010, the Group recorded a total gross profit of HK\$509,728,000. Overall gross profit margin had increased by 2.7 percentage point to 51.5% for the six months ended 30 June 2010, from 48.8% for the corresponding period last year. This is mainly attributable to improvement in sales mix as well as effective cost control resulting from enhanced production management.

### **SELLING AND MARKETING EXPENSES**

For the six months ended 30 June 2010, selling and marketing expenses amounted to approximately HK\$226,089,000 (30 June 2009: HK\$199,770,000), which mainly consisted of advertising expenses of approximately HK\$29,171,000 (30 June 2009: HK\$25,792,000), sales commission of approximately HK\$95,757,000 (30 June 2009: HK\$97,167,000), salary expenses of sales and marketing staff of approximately HK\$33,440,000 (30 June 2009: HK\$25,931,000) and transportation cost of approximately HK\$31,539,000 (30 June 2009: HK\$25,083,000).

Selling and marketing expenses increased by 13.2% for the six months ended 30 June 2010 as compared with that of the corresponding period last year, which was in line with the increase in sales.

### **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the six months ended 30 June 2010 was HK\$102,160,000 (30 June 2009: HK\$83,371,000), increased by 22.5% as compared to that of the corresponding period last year.

General and administrative expenses mainly comprised of salaries expenses for the administrative staff of approximately HK\$39,787,000 (30 June 2009: HK\$32,686,000) and depreciation and amortisation of approximately HK\$22,281,000 (30 June 2009: HK\$21,001,000).

### **OPERATING PROFIT**

For the six months ended 30 June 2010, the Group's operating profit amounted to HK\$179,467,000 representing an increase of 21.6% as compared to that of the corresponding period last year, whereas operating profit margin (defined as operating profit divided by total sales) increased from 17.0% to 18.1%.

### **FINANCE COSTS**

The Group's finance costs for the period amounted to HK\$14,714,000 (30 June 2009: HK\$20,523,000), of which HK\$13,226,000 (30 June 2009: HK\$13,776,000) related to bank borrowings and HK\$– (30 June 2009: HK\$6,393,000) related to convertible bonds. The decrease in finance costs as compared to that of the corresponding period last year was due to the decrease in bank loan and interest rate as well as decrease in convertible bonds.

### **INCOME TAX EXPENSE**

Both Xi'an Lijun Pharmaceutical Co., Ltd. ("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 2010 to 2012. For the six months ended 30 June 2010, the overall income tax expense amounted HK\$26,105,000 (30 June 2009: HK\$15,131,000).

### **PROFIT ATTRIBUTABLE TO EQUITY HOLDERS**

The profit attributable to equity holders of the Company for the six months ended 30 June 2010 increased by 25.0% to HK\$140,278,000 while net profit margin (defined as profit attributable to equity holders of the Company for the period divided by total sales) increased to 14.2% from 12.9% for the corresponding period last year.

Profit attributable to equity holders of the Company in the full year of 2009 amounting to HK\$216,095,000, net profit margin is 12.4%.

### **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 2010, the cash and cash equivalents aggregated to HK\$692,586,000 (31 December 2009: HK\$184,964,000), comprising HK\$404,386,000 (31 December 2009: HK\$7,413,000) of cash and cash equivalents denominated in Hong Kong dollars, HK\$287,887,000 (31 December 2009: HK\$176,551,000) in RMB and HK\$313,000 (31 December 2009: HK\$1,000,000) in other currencies.

As at 30 June 2010, the Group has restricted deposits amounting to HK\$117,000 (31 December 2009: HK\$8,662,000) as guarantee of the bank borrowings, payables for property, plant and equipment and bills payables.

The carrying amounts of the borrowings amounting to HK\$522,659,000 as at 30 June 2010 (31 December 2009: HK\$513,968,000), comprising HK\$110,000,000 (31 December 2009: HK\$105,100,000) of borrowings denominated in Hong Kong dollars and HK\$412,659,000 (31 December 2009: HK\$408,868,000) in RMB.

As at 30 June 2010, the cash and cash equivalents and pledged bank deposits exceeded bank borrowings by HK\$170,044,000 (31 December 2009: net gearing ratio (defined as bank borrowings less cash and cash equivalents and pledged bank deposits divided by total equity less minority interests) of 19.7%).

Current ratio (defined as current assets divided by current liabilities) increased from 1.20 as at 31 December 2009 to 2.07 as at 30 June 2010.

## POST BALANCE SHEET EVENT

### 1. Placement of existing shares

On 13 July 2010, Victory Rainbow Investment Limited, a substantial shareholder of the Company has engaged Morgan Stanley & Co. International plc for the placement of an aggregate of 165,000,000 shares in the Company representing a total of approximately 7.01% of the entire issued and fully paid up share capital of the Company as at 13 July 2010 at a price of HK\$2.28 per share. The placement of the shares forms part of Victory Rainbow Investment Limited's own respective asset management plan. Immediately upon completion of the placement, Victory Rainbow Investment Limited holds 117,700,000 shares in the Company, representing 4.99% shareholding.

### 2. Memorandum of understanding in respect of formation of joint venture

On 21 July 2010, the Company entered into a memorandum of understanding with Tonghua Dongbao Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange (under stock code: 600867.SH) in the PRC, pursuant to which they will establish a joint venture company in Julin Province, the PRC. The joint venture company will be engaged principally in the manufacture and sale of large volume intravenous infusion solutions.

Further details were set out in the Company's announcement dated 21 July 2010.

## FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and HK dollar. 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 2010.

## PLEDGE OF ASSETS

As at 30 June 2010, the Group's restricted deposits of HK\$117,000 and land use rights, property, plant and equipment with the net book amount of approximately HK\$64,662,000 and HK\$232,307,000 respectively were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payables.

## CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any significant contingent liabilities.

### **INTERIM DIVIDEND**

The Directors resolved to pay on 24 September 2010 an interim dividend of HK\$0.02 per share (amounting to a total of approximately HK\$47,098,000) for the six months ended 30 June 2010 to the shareholders named in the register of members of the Company on 10 September 2010. The interim dividend represents a payout rate of 33.6% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2010.

### **EXCHANGE RATE**

As at 2010 and 2009, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2009	0.88189
30 June 2009	0.88153
31 December 2009	0.88048
30 June 2010	0.87239

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

The Company has not redeemed any of its Shares during the period.

Save for the allotment and issuance of an aggregate of 235,000,000 shares of the Company to Value Partners Limited (205,000,000 shares) and Atlantis Investment Management Limited (30,000,000 shares) which details were set out in the Company's announcements dated 14 April 2010 and 27 April 2010, 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 2010.

## **SHARE OPTION SCHEME**

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, in recognition of their contributions to the Group, to subscribe for the shares. The offer for grant of options ("Offer") must be taken up within 28 days from the date of Offer, with a payment of HK\$1.00 as consideration for the grant. The exercise price of the share option will be determined at the higher of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval has been obtained pursuant to the conditions set out in the Scheme. The total number of Shares issued and to be issued upon exercise of all options granted under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

As at 7 August 2008, the Company granted 100,000,000 share options, 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 30 June 2010, all options granted had not been exercised. Details are set out in note 7 to the Condensed Consolidated Interim Financial Information.

### **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.

During the period, the annual remuneration of Mr. Wang Xianjun increased from HK\$1,200,000 to HK\$1,500,000 with effect from 1 May 2010. The adjustment in the remuneration of Mr. Wang was reviewed and approved by the Remuneration Committee.

As at 30 June 2010, the Group had approximately 3,600 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 2010 was HK\$125,257,000 (30 June 2009: HK\$101,041,000).

### **UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

On 27 May 2010, Mr. Chow Kwok Wai, independent non-executive director of the Company, was appointed as independent non-executive director of Youyuan International Holdings Limited (Stock Code: 2268) whose shares are listed on the Stock Exchange. On 27 July 2010, Mr. Chow was admitted to the Taxation Institute of Hong Kong as a Fellow member (FITHK).

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES**

As at 30 June 2010, 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**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
Mr. Wu Qin	Beneficial owner <i>(Note 1)</i>	22,420,000	0.95%
Mr. Qu Jiguang	Interest in a controlled corporation <i>(Note 2)</i>	571,500,000	24.27%
	Beneficial owner <i>(Note 3)</i>	7,000,000	0.30%
Mr. Xie Yunfeng	Beneficial owner <i>(Note 3)</i>	7,000,000	0.30%
Mr. Huang Chao	Beneficial owner <i>(Note 3)</i>	5,000,000	0.21%
Mr. Wang Xianjun	Beneficial owner <i>(Note 3)</i>	6,000,000	0.25%
Mr. Duan Wei	Beneficial owner <i>(Note 3)</i>	7,000,000	0.30%
Ms. Gao Shuping	Beneficial owner <i>(Note 3)</i>	6,000,000	0.25%



*Notes:*

1. Among the 22,420,000 shares, 7,000,000 shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Wu Qin on 7 August 2008 under the Share Option Scheme.
2. 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.
3. These shares represent the underlying interests in shares of the Company pursuant to options granted to the respective Directors on 7 August 2008 under the Share Option Scheme.

Save as disclosed above, as at 30 June 2010, 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 2010 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 2010, 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**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>% of the issued share capital of the Company</b>
Prime United Industries Limited <i>(Note 1)</i>	Beneficial owner	641,655,000	27.25%
CPCL <i>(Note 2)</i>	Beneficial owner	571,500,000	24.27%
Mr. Qu Jiguang	Interest of controlled corporation <i>(Note 2)</i>	571,500,000	24.27%
	Beneficial owner <i>(Note 3)</i>	7,000,000	0.30%
Victory Rainbow Investment Limited <i>(Note 4)</i>	Beneficial owner	282,700,000	12.00%
Grand Ocean Shipping Company Ltd. <i>(Note 4)</i>	Interest of controlled corporation	282,700,000	12.00%
Ms. Huang Meiyun <i>(Note 4)</i>	Interest of controlled corporation	282,700,000	12.00%
Mr. Xu Ming <i>(Note 4)</i>	Interest of controlled corporation	282,700,000	12.00%

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<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>% of the issued share capital of the Company</b>
Value Partners Limited (Note 5)	Investment manager	205,000,000	8.71%
Value Partners Group Limited (Note 5)	Interest of controlled corporation	205,000,000	8.71%
Cheah Capital Management Limited (Note 5)	Interest of controlled corporation	205,000,000	8.71%
Cheah Company Limited (Note 5)	Interest of controlled corporation	205,000,000	8.71%
Hang Seng Bank Trustee International Limited (Note 5)	Trustee	205,000,000	8.71%
Mr. Cheah Cheng Hye (Note 5)	Interest of controlled corporation and founder of a discretionary trust	205,000,000	8.71%
Ms. To Hau Yin (Note 5)	Interest of spouse	205,000,000	8.71%
Atlantis Investment Management Limited (Note 6)	Investment manager	148,900,000	6.32%
Ms. Liu Yang (Note 6)	Interest of controlled corporation	148,900,000	6.32%

*Notes:*

- (1) Prime United Industries Limited is held as to about 8.86% by Mr. Wu Qin, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director and as to about 84.73% by Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao who jointly hold such shares on trust for 4,479 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao, the executive Directors, are also directors of 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 State-owned Assets Supervision and Administration Commission of the People's Government of Xian.
- (2) 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.
- (3) These shares represent the underlying interest on shares of the Company pursuant to options granted to Mr. Qu Jiguang on 7 August 2008 under the Share Option Scheme.
- (4) 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. Huang Meiyang and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Huang Meiyang and Mr. Xu Ming is deemed to be interested in the shares held by Victory Rainbow Investment Limited.
- (5) These shares are held by Hang Seng Bank Trustee International Limited in its capacity as the trustee of a family trust through Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited and Cheah Company Limited. Mr. Cheah Cheng Hye is the founder of the family trust and Ms. To Hau Yin as the spouse of Mr. Cheah Cheng Hye is deemed to be interested in these shares.
- (6) Atlantis Investment Management Limited is held as to 40% by Ms. Liu Yang. By virtue of Part XV of the SFO, Ms. Liu Yang is deemed to be interested in the shares held by Atlantis Investment Management 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 2010.

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules. During the six months ended 30 June 2010, the Company has complied with the applicable Code Provisions set out in the CG Code.

### **INDEPENDENT REVIEW OF AUDITORS**

The Interim Financial Information for the six months ended 30 June 2010 has been reviewed by the auditors 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 2010.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 8 September, 2010 to Friday, 10 September, 2010 (both days inclusive) during which period no transfer of shares will be effected. 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 in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 7 September, 2010.

On behalf of the Board

**Wu Qin**

*Chairman*

Hong Kong, 23 August 2010



羅兵咸永道會計師事務所

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**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 31 to 58, which comprises the condensed consolidated balance sheet of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related 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 Main Board of 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.

### **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, 23 August 2010

## CONDENSED CONSOLIDATED BALANCE SHEET

*(All amounts in HK\$ unless otherwise stated)*

	<i>Note</i>	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	5	208,527	209,247
Property, plant and equipment	5	841,209	823,174
Intangible assets	5	547,308	550,225
Deferred income tax assets		15,958	17,037
Available-for-sale financial assets		148	147
<b>Total non-current assets</b>		<b>1,613,150</b>	1,599,830
<b>Current assets</b>			
Inventories		257,667	229,377
Trade and bill receivables	6	403,380	408,394
Financial assets at fair value through profit or loss		7,685	87
Prepayments, deposits and other receivables		69,910	68,945
Pledged bank deposits		117	8,662
Cash and cash equivalents		692,586	184,964
<b>Total current assets</b>		<b>1,431,345</b>	900,429
<b>Total assets</b>		<b>3,044,495</b>	2,500,259
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	7	54,069	48,894
Reserves	8	2,125,479	1,575,882
		<b>2,179,548</b>	1,624,776
<b>Non-controlling interests</b>		<b>1,077</b>	1,044
<b>Total equity</b>		<b>2,180,625</b>	1,625,820



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	<i>Note</i>	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	11	126,582	78,172
Deferred income tax liabilities		27,218	28,474
Deferred revenue		4,700	4,657
Long-term payables	9	14,316	15,189
<b>Total non-current liabilities</b>		<b>172,816</b>	126,492
<b>Current liabilities</b>			
Trade and bill payables	10	166,357	166,259
Advanced receipts from customers		16,442	16,067
Accruals and other payables		100,468	116,577
Income tax payable		11,710	13,248
Borrowings	11	396,077	435,796
<b>Total current liabilities</b>		<b>691,054</b>	747,947
<b>Total liabilities</b>		<b>863,870</b>	874,439
<b>Total equity and liabilities</b>		<b>3,044,495</b>	2,500,259
<b>Net current assets</b>		<b>740,291</b>	152,482
<b>Total assets less current liabilities</b>		<b>2,353,441</b>	1,752,312

**WU QIN**  
DIRECTOR

**QU JIGUANG**  
DIRECTOR

The notes on page 37 to 58 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK\$ unless otherwise stated)

	Note	Six months ended 30 June	
		2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Revenue	4	988,814	866,347
Cost of sales		(479,086)	(443,739)
<b>Gross profit</b>		<b>509,728</b>	422,608
Other (losses)/gains – net		(2,012)	8,111
Selling and marketing costs		(226,089)	(199,770)
General and administrative expenses		(102,160)	(83,371)
<b>Operating profit</b>	12	<b>179,467</b>	147,578
Finance income		1,654	297
Finance costs		(14,714)	(20,523)
Finance costs – net		(13,060)	(20,226)
<b>Profit before income tax</b>		<b>166,407</b>	127,352
Income tax expenses	13	(26,105)	(15,131)
<b>Profit for the period</b>		<b>140,302</b>	112,221
<b>Other comprehensive income:</b>			
Currency translation differences		17,571	581
<b>Total comprehensive income for the period</b>		<b>157,873</b>	112,802
<b>Profit attributable to:</b>			
– Equity holders of the Company		140,278	112,179
– Non-controlling interests		24	42
		<b>140,302</b>	112,221

	Note	Six months ended 30 June	
		2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
<b>Total comprehensive income attributable to:</b>			
– Equity holders of the Company		<b>157,840</b>	112,760
– Non-controlling interests		<b>33</b>	42
		<b>157,873</b>	112,802
<b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)</b>			
– Basic	15	<b>0.0632</b>	0.0553
– Diluted	15	<b>0.0614</b>	0.0553
Dividends	14	<b>47,098</b>	40,540

The notes on page 37 to 58 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(All amounts in HK\$ unless otherwise stated)*

	Unaudited				
	Attributable to equity holders of the Company			Non- controlling interests	Total equity
	Share capital	Reserves	Total		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Balance at 1 January 2010</b>	48,894	1,575,882	1,624,776	1,044	1,625,820
<b>Comprehensive income</b>					
Profit for the period	–	140,278	140,278	24	140,302
<b>Other comprehensive income</b>					
Currency translation differences	475	17,087	17,562	9	17,571
<b>Total comprehensive income</b>	475	157,365	157,840	33	157,873
<b>Transactions with owners</b>					
Issuance of shares	4,700	439,330	444,030	–	444,030
Dividends paid to equity holders of the Company	–	(47,098)	(47,098)	–	(47,098)
<b>Total transactions with owners</b>	4,700	392,232	396,932	–	396,932
<b>Balance at 30 June 2010</b>	54,069	2,125,479	2,179,548	1,077	2,180,625
<b>Balance at 1 January 2009</b>	46,959	1,321,885	1,368,844	945	1,369,789
<b>Comprehensive income</b>					
Profit for the period	–	112,179	112,179	42	112,221
<b>Other comprehensive income</b>					
Currency translation differences	20	561	581	–	581
<b>Total comprehensive income</b>	20	112,740	112,760	42	112,802
<b>Transactions with owners</b>					
Redemption of convertible bonds	–	(1,303)	(1,303)	–	(1,303)
Dividends paid to equity holders of the Company	–	(20,270)	(20,270)	–	(20,270)
<b>Total transactions with owners</b>	–	(21,573)	(21,573)	–	(21,573)
<b>Balance at 30 June 2009</b>	46,979	1,413,052	1,460,031	987	1,461,018

The notes on page 37 to 58 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK\$ unless otherwise stated)

	Six months ended 30 June	
	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Cash flows from operating activities – net	152,723	169,736
Cash flows used in investing activities – net	(57,512)	(139,631)
Cash flows from /(used in) financing activities – net	409,425	(81,136)
Net increase /(decrease) in cash and cash equivalents	504,636	(51,031)
Cash and cash equivalents at 1 January	184,964	219,453
Effect of foreign exchange rate changes	2,986	78
Cash and cash equivalents at 30 June	692,586	168,500

The notes on page 37 to 58 form an integral part of this condensed consolidated interim financial information.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*(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 condensed consolidated interim financial information is presented in Hong Kong dollars ("HK\$"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Company's Board of Directors on 23 August 2010.

This condensed consolidated interim financial information has not been audited.

### 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

### 3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

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 standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. This standard does not have any impact on the Group's condensed consolidated interim financial information, as the Group has not entered into any business combination during the period for the six months ended 30 June 2010.

**3 ACCOUNTING POLICIES** (Continued)

(a) New and amended standards adopted by the Group (Continued)

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered this amendment did not have any impact to the Group as all the leases of land should still be classified as operating leases under the HKAS 17 (amendment).

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:

- IFRIC/HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- "Additional exemptions for first-time adopters" (Amendment to HKFRS 1) is effective for annual reporting periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.
- HKAS 39 (Amendment), "Eligible hedged items" is effective for annual reporting periods beginning on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging activities.
- HKFRS 2 (Amendment), "Group cash-settled share-based payment transaction" is effective for annual reporting periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions for the six months ended 30 June 2010.
- First improvements to International Financial Reporting Standards (2008) were issued in May 2008 by the IASB and October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual reporting periods on or after 1 July 2009. This is not currently applicable to the Group, as it has no non-current assets held for sale or discontinued operations for the six months ended 30 June 2010.
- Second improvements to International Financial Reporting Standards (2009) were issued in April 2009 by IASB and May 2009 by the HKICPA. All improvements are not currently applicable to the Group for the six months ended 30 June 2010.



**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 1 January 2010 and have not been early adopted:

<b>Standards</b>	<b>Amendments</b>	<b>Effective date</b>
HKFRS 9	Financial instruments: Classification and measurement of financial assets	1 January 2013
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKAS 32	Classification of rights issues	1 February 2010
HK(IFRIC) Int-14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC) Int-19	Extinguishing financial liabilities with equity instruments	1 July 2010
HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

**4 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 decision-maker considers the business from a product perspective. From a product perspective, management assesses the performance of two product segments, namely intravenous infusion solution and antibiotics and others.

The 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 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 bill 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 borrowings.

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

4 SEGMENT INFORMATION (Continued)

	Unaudited			Total HK\$'000
	Intravenous infusion solution HK\$'000	Antibiotics and others HK\$'000	Unallocated HK\$'000	
<b>Six months ended</b>				
<b>30 June 2010</b>				
<b>Revenue</b>	377,186	611,628	–	988,814
<b>Operating profit/(loss) segment results</b>	107,890	83,826	(12,249)	179,467
Finance income	136	1,223	295	1,654
Finance costs	(4,766)	(7,041)	(2,907)	(14,714)
<b>Profit/(loss) before income tax</b>	103,260	78,008	(14,861)	166,407
Income tax expenses	(15,403)	(10,702)	–	(26,105)
<b>Profit/(loss) for the period</b>	87,857	67,306	(14,861)	140,302
<b>Six months ended</b>				
<b>30 June 2009</b>				
<b>Revenue</b>	320,173	546,174	–	866,347
<b>Operating profit/(loss) segment results</b>	79,522	70,134	(2,078)	147,578
Finance income	85	201	11	297
Finance costs	(8,078)	(4,760)	(7,685)	(20,523)
<b>Profit/(loss) before income tax</b>	71,529	65,575	(9,752)	127,352
Income tax expenses	(5,158)	(9,906)	(67)	(15,131)
<b>Profit/(loss) for the period</b>	66,371	55,669	(9,819)	112,221

**4 SEGMENT INFORMATION** (Continued)

	<b>Unaudited</b>			<b>Total</b>
	<b>Intravenous</b>	<b>Antibiotics</b>	<b>Unallocated</b>	
	<b>infusion</b>	<b>and others</b>		
	<b>solution</b>			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 30 June 2010</b>				
<b>Total assets</b>	1,584,323	1,110,082	350,090	3,044,495
<b>Total liabilities</b>	407,969	394,519	61,382	863,870

	<b>Audited</b>			<b>Total</b>
	<b>Intravenous</b>	<b>Antibiotics</b>	<b>Unallocated</b>	
	<b>infusion</b>	<b>and others</b>		
	<b>solution</b>			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 December 2009</b>				
<b>Total assets</b>	1,435,431	1,045,192	19,636	2,500,259
<b>Total liabilities</b>	385,241	401,197	88,001	874,439

5 CAPITAL EXPENDITURE

	Unaudited			
	Land use rights <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>	Other intangible assets <i>HK\$'000</i>
<b>Six months ended</b>				
<b>30 June 2010</b>				
<b>Opening net book amount as at 1 January 2010</b>	209,247	823,174	456,316	93,909
Additions	–	48,918	–	940
Disposals	–	(270)	–	–
Depreciation/Amortisation	(2,649)	(38,294)	–	(8,922)
Exchange differences	1,929	7,681	4,231	834
<b>Closing net book amount as at 30 June 2010</b>	208,527	841,209	460,547	86,761
<b>Six months ended</b>				
<b>30 June 2009</b>				
<b>Opening net book amount as at 1 January 2009</b>	214,036	792,855	455,586	110,854
Additions	–	63,896	–	94
Disposals	–	(4,255)	–	–
Depreciation/Amortisation	(2,627)	(34,550)	–	(8,803)
Exchange differences	87	330	186	44
<b>Closing net book amount as at 30 June 2009</b>	211,496	818,276	455,772	102,189

**5 CAPITAL EXPENDITURE** *(Continued)*

As at 30 June 2010, the Group's land use rights and property, plant and equipment with net book amounts of HK\$ 64,662,000 (31 December 2009: HK\$ 64,854,000) and HK\$ 232,307,000 (31 December 2009: HK\$ 356,497,000) respectively were pledged as collateral for the Group's bank borrowings (*Note 11*).

**6 TRADE AND BILL RECEIVABLES**

The Group generally required its customers to settle sales invoices within 3 months. Ageing analysis of trade and bill receivables is as follows:

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Within 3 months	<b>374,180</b>	370,110
4 to 6 months	<b>19,894</b>	22,107
7 to 12 months	<b>8,355</b>	12,831
1 to 2 years	<b>9,458</b>	13,741
2 to 3 years	<b>14,387</b>	7,413
More than 3 years	<b>781</b>	530
	<b>427,055</b>	426,732
Less: Provision for impairment	<b>(23,675)</b>	(18,338)
	<b>403,380</b>	408,394

7 SHARE CAPITAL

	Number of shares <i>'000</i>	Ordinary shares <i>HK\$'000</i>
<b>Authorised</b>		
At 30 June 2009 and 2010 (ordinary shares with par value of HK\$ 0.02 each)	10,000,000	200,000
<b>Issued and fully paid up</b>		
At 1 January 2010	2,119,904	48,894
Issuance of shares	235,000	4,700
Currency translation differences	–	475
At 30 June 2010 (unaudited)	2,354,904	54,069
At 1 January 2009	2,027,003	46,959
Currency translation differences	–	20
At 30 June 2009 (unaudited)	2,027,003	46,979

On 27 April 2010, 205,000,000 and 30,000,000 shares have been placed to Value Partners Limited and Atlantis Investment Management Limited respectively at the price of HK \$1.9 per share.

**Share option scheme**

The Group has adopted a share option scheme, which will remain in force for 3 years up to August 2011. Share options may be granted to any directors, employees of the Group. The exercise price is determined by the Board and shall not be less than the highest of (i) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer, which shall be a business day; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer, and (iii) the nominal value of the share. The Group has no legal or constructive obligation to repurchase or settle these options in cash.

**7 SHARE CAPITAL** *(Continued)*

**Share option scheme** *(Continued)*

In August 2008, share options were granted to certain directors and employees to subscribe 100,000,000 shares (fully vested upon grant) in the Company at an exercise price of HK\$ 0.7 per share, exercisable from August 2008 to August 2011.

The fair value of the share options granted, determined by using the Binomial valuation model, was approximately HK\$ 15,346,000. The significant inputs into the model are share price of HK\$ 0.7 at the grant date, exercise price of HK\$ 0.7, volatility of 43.6%, expected dividends paid out rate of 2.4%, and annual risk-free interest rate of 2.7%. The volatility, measured by the standard deviation of expected share price returns, is based on statistical analysis of daily share prices of the Company and other comparable companies over the last five years.

Share options outstanding have the following expiry date and exercise price:

Expiry date	Exercise price per share <i>HK\$</i>	Share options	
		30 June 2010	31 December 2009
		Unaudited	Audited
6 August 2011	0.7	100,000 <i>'000</i>	100,000 <i>'000</i>

No share option has been exercised during the six months ended 30 June 2010.



8 RESERVES

	Unaudited						
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Equity component of convertible bonds <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 January 2010</b>	842,176	175,547	-	139,555	15,308	403,296	1,575,882
Issuance of shares	439,330	-	-	-	-	-	439,330
Dividends paid to equity holders of the Company	-	-	-	-	-	(47,098)	(47,098)
Profit for the period	-	-	-	-	-	140,278	140,278
Currency translation differences	9,846	1,627	-	1,341	143	4,130	17,087
<b>At 30 June 2010</b>	1,291,352	177,174	-	140,896	15,451	500,606	2,125,479
<b>At 1 January 2009</b>	737,532	175,266	7,028	115,077	15,284	271,698	1,321,885
Redemption of convertible bonds	-	-	(1,303)	-	-	-	(1,303)
Dividends paid to equity holders of the Company	-	-	-	-	-	(20,270)	(20,270)
Profit for the period	-	-	-	-	-	112,179	112,179
Currency translation differences	301	72	2	47	6	133	561
<b>At 30 June 2009</b>	737,833	175,338	5,727	115,124	15,290	363,740	1,413,052

**9 LONG-TERM PAYABLES**

Long-term payables mainly represent the present value of the Group's obligations for post-employment benefits. The maturity profile of the long-term payables is as follows:

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Within 1 year	1,952	1,997
Between 1 to 2 years	1,133	1,361
Between 2 to 5 years	2,827	2,651
More than 5 years	10,356	11,177
	<b>16,268</b>	17,186
Less: Current portion included in current liabilities	<b>(1,952)</b>	(1,997)
	<b>14,316</b>	15,189

**10 TRADE AND BILL PAYABLES**

Ageing analysis of trade and bill payables is as follows:

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Within 3 months	102,705	120,694
4 to 6 months	26,152	22,723
7 to 12 months	28,751	12,325
1 to 3 years	4,274	8,424
More than 3 years	4,475	2,093
	<b>166,357</b>	166,259

11 BORROWINGS

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
<b>Non-current</b>		
Non-current portion of long-term bank borrowings	<b>126,582</b>	78,172
<b>Current</b>		
Current portion of long-term bank borrowings	<b>63,657</b>	83,715
Short-term bank borrowings	<b>332,420</b>	352,081
	<b>396,077</b>	435,796
<b>Total borrowings</b>	<b>522,659</b>	513,968
Representing:		
Unsecured	<b>289,255</b>	285,792
Secured (i)	<b>183,404</b>	199,076
Guaranteed (ii)	<b>50,000</b>	29,100
	<b>522,659</b>	513,968

- (i) As at 30 June 2010, certain borrowings of the Group were secured by the Group's land use rights with a net book amount of HK\$ 64,662,000 and the Group's property, plant and equipment with a net book amount of HK\$ 232,307,000. As at 31 December 2009 certain borrowings of the Group were secured by the Group's land use rights with a net book amount of HK\$ 64,854,000, the Group's property, plant and equipment with a net book amount of HK\$ 356,497,000 and the Group's pledged bank deposits of HK\$ 8,548,000.
- (ii) As at 30 June 2010 and 31 December 2009, certain borrowings of the Group's bank were guaranteed by 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 2010 were HK\$ 13,226,000 (six months ended 30 June 2009: HK\$ 13,776,000).

**11 BORROWINGS** *(Continued)*

Movements in borrowings were analysed as follows:

	<b>Unaudited</b> <b>HK\$'000</b>
<b>Six months ended 30 June 2010</b>	
As at 1 January 2010	513,968
Proceeds from borrowings	281,598
Repayments of borrowings	(277,137)
Exchange differences	4,230
<b>As at 30 June 2010</b>	<b>522,659</b>
<b>Six months ended 30 June 2009</b>	
As at 1 January 2009	590,392
Proceeds from borrowings	311,576
Repayments of borrowings	(356,401)
Exchange differences	233
<b>As at 30 June 2009</b>	<b>545,800</b>

**12 OPERATING PROFIT**

The following items have been charged/(credited) to the operating profit during the six months ended 30 June 2010 and 2009:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss on disposal of property, plant and equipment	<b>86</b>	115
Depreciation of property, plant and equipment	<b>38,294</b>	34,550
Reversal of inventory provision	<b>(698)</b>	(5,901)
Provision for impairment of receivables	<b>4,700</b>	1,094
Amortisation of intangible assets	<b>8,922</b>	8,803
Amortisation of land use rights	<b>2,649</b>	2,627
Foreign exchange loss/(gain), net	<b>1,066</b>	(132)

**13 INCOME TAXES**

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

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd., the wholly owned subsidiaries of the Company, established and operate in Mainland China are subject to Mainland China Enterprise Income Tax ("EIT") at an applicable rate of 15% for the year ending 31 December 2010. Both subsidiaries are qualified as high technology enterprises and entitled to a 15% preferential EIT rate for the years from 2010 to 2012.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd. are wholly foreign owned enterprises and had obtained approvals from the relevant Mainland China Tax authority for their entitlement of a two-year full exemption followed by a three-year 50% tax deduction, commencing from the first cumulative profit-making year net of losses carried forward, i.e. 2005. Accordingly, EIT rate applicable to both subsidiaries was 12.5% during the year ended 31 December 2009.

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Current income tax	<b>26,385</b>	14,849
Deferred income tax	<b>(280)</b>	282
	<b>26,105</b>	15,131

**14 DIVIDENDS**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interim dividend, declared, of HK\$2 cents (six months ended 30 June 2009: HK\$2 cents) per ordinary share	<b>47,098</b>	40,540

At a meeting held on 23 August 2010, the directors recommended the payment of an interim dividend of HK\$2 cents per ordinary share, totaling HK\$ 47,098,000 in respect of the six months ended 30 June 2010. The proposed dividend has not been reflected as a dividend payable in this condensed consolidated interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

**15 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately HK\$ 140,278,000 (six months ended 30 June 2009: HK\$112,179,000) by the weighted average number of 2,220,068,000 (six months ended 30 June 2009: 2,027,003,000) ordinary shares in issue during the period.

Diluted earnings per share is calculated after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares at 30 June 2010, i.e., share options (at 30 June 2009: share options and convertible bonds). For the outstanding share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares in the relevant periods) based on the market values of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options. For convertible bonds, it is assumed that they have been converted into ordinary shares since the beginning of the year or date of issuance (whichever is later) and, consequently the net profit is adjusted to eliminate the relevant interest expense together with the related tax effect.

**15 EARNINGS PER SHARE** *(Continued)*

	<b>Six months ended 30 June</b>	
	<b>2010 Unaudited HK\$'000</b>	2009 Unaudited HK\$'000
Profit used to determine diluted earnings per share	<b>140,278</b>	112,179
Interest expense on convertible bonds	–	6,393
Adjusted profit attributable to equity holders of the Company	<b>140,278</b>	118,572
Weighted average number of ordinary shares in issue (thousands)	<b>2,220,068</b>	2,027,003
Adjustment for share options (thousands)	<b>66,047</b>	–
Adjustments for assumed conversion of convertible bonds (thousands)	–	110,265
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>2,286,115</b>	2,137,268
Recalculated earnings per share (HK\$ per share)	<b>0.0614</b>	0.0555
Diluted earnings per share as reflected on the comprehensive income statement (HK\$ per share)	<b>0.0614</b>	0.0553

During the six months ended 30 June 2009, the dilutive effect of share options was anti-dilutive.

**16 RELATED-PARTY TRANSACTIONS**

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

<b>Name</b>	<b>Relationship</b>
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 27.25% interest in the Company as at 30 June 2010
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by certain key management personnel of the Group

Rejoy Technology has transferred all its interest in Rejoy Baichuan to a third party individual on 25 December 2009. Rejoy Baichuan is no longer a related party of the Group from 25 December 2009 onwards.



16 RELATED-PARTY TRANSACTIONS (Continued)

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

Nature of transactions	Name of related party	Six months ended 30 June	
		2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Purchasing of raw materials and packaging materials from	Rejoy Packaging	–	1,815
Sales of finished goods to	Rejoy Medicine	3,690	1,900
	Rejoy Baichuan	–	4,060
	Xi'an Pharmacy Factory	–	664
		<b>3,690</b>	6,624
Provision of utilities from	Xi'an Pharmacy Factory	<b>20,205</b>	24,276
Payment of administrative costs to	Xi'an Pharmacy Factory	<b>1,711</b>	1,701

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.

**16 RELATED-PARTY TRANSACTIONS** *(Continued)*

**(c) Key management compensation**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Salaries and wages	<b>4,543</b>	3,299

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

	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>Unaudited</b>	Audited
	<b>HK\$'000</b>	HK\$'000
Amounts due from related parties included in trade receivables		
– Rejoy Medicine	<b>3,186</b>	2,486
Amounts due from related parties included in other receivables		
– Xi'an Pharmacy Factory	<b>8,230</b>	7,842
Amounts due to related parties included in trade payables		
– Rejoy Packaging	<b>275</b>	357

The related party balances are unsecured and interest free.

**17 COMMITMENTS**

**(a) Capital commitments**

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

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
– Property, plant and equipment	<b>21,746</b>	6,262

**(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:

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Not later than one year	<b>1,821</b>	2,533
Later than one year and not later than five years	<b>1,517</b>	1,405
More than five years	<b>7,420</b>	7,488
	<b>10,758</b>	11,426

**18 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

On 21 July 2010, the Group entered into a memorandum of understanding with Tonghua Dongbao Pharmaceutical Co., Ltd., (“Tonghua Dongbao”), pursuant to which a joint venture company will be established in Jilin Province, the PRC. The joint venture company will be engaged principally in the manufacture and sale of large volume intravenous infusion solutions.

The joint venture company will be owned beneficially as to 55% by the Group and as to 45% by Tonghua Dongbao. Pursuant to the terms of the memorandum of understanding, the registered capital of the joint venture company will be RMB120,000,000 and the total investment will be RMB180,000,000. The Company will contribute in aggregate up to RMB90,000,000 in cash for 55% interests and Tonghua Dongbao will contribute in kind by assets for 45% interests in the joint venture company respectively.