

# 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

# 2011

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## **CORPORATE INFORMATION**

### **STOCK CODE**

2005

### **EXECUTIVE DIRECTORS**

Mr. Wu Qin (*Chairman*)  
Mr. Qu Jiguang  
Mr. Xie Yunfeng  
Mr. Huang Chao  
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**

Mr. Chow Hing Yeung

### **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  
Mr. Bao Leyuan

### **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 2011.

### 1. RESULTS AND DIVIDEND DISTRIBUTION

We have been facing unprecedented pressure and difficulties since this year, which include the overall price reduction of national pharmaceutical products, the change in tender policy, the increase in raw materials and power cost as well the increase of city construction tax. We are trying our best to accelerate our pace of transformation and upgrading by implementation of product structure adjustment, strengthening marketing management and focusing on cost and expense control in order to maintaining a steady development momentum under the severe market condition. In the first half year, the Company achieved sales income of HK\$1,088,903,000, increased by 10.1% as compared with the corresponding period of last year, among which, HK\$597,417,000 was from Xi'an Lijun, decreased by 2.3% as compared with the corresponding period of last year, and HK\$491,486,000 was from Shijiazhuang No. 4 Pharma, increased by 30.3% as compared with the corresponding period of last year. The Company achieved profit attributable to equity holders of HK\$135,010,000, decreased by 3.8% as compared with the corresponding period of last year, among which, Xi'an Lijun accounted for HK\$53,513,000, decreased by 20.5% as compared with the corresponding period of last year; and Shijiazhuang No. 4 Pharma accounted for HK\$92,623,000, increased by 5.4% as compared with the corresponding period of last year. It was not easy for the Company to achieve this results under the difficult market environment.

The Board proposed a distribution of dividends of HK\$0.02 per share for the first half year, amounting HK\$48,896,000 in total.

## 2. REVIEW OF OPERATING RESULTS

### (1) Product marketing

#### 1. *Further optimizing the structure of intravenous infusion solution products, consolidating and enhancing the advantageous position in the market.*

To cope with the changing trend of the industry, the Group considered structure adjustment as the key strategy for transformation and upgrading. By increasing the production and sales proportion of soft-packaging infusion solutions and therapeutical infusion solutions, and putting more efforts in expanding and perfecting the mid and high end market channels of PP plastic bottles and Non-PVC Soft Bag infusion solution products, the Company consolidated and enhanced its market share as well as improving its profit margin and profitability, whereby its market advantages were further consolidated and developed. In the first half year, revenue from infusion solution business amounted to HK\$434,363,000, representing a year-on-year increase of 27.3%, among which, sales of advantageous products such as soft-packaging infusion solutions and high value-added infusion solutions accounted for over 90% of total revenue, and sales of therapeutical infusion solutions such as Levofloxacin, Mannitol, Ozagrel, Sodium Lactate Ringer and Amino Acid achieved relatively rapid growth.

Foreign trading of infusion solution continued to maintain sound development momentum. In the first half year, the Group registered trademarks in 48 countries including Vietnam, Russia, Uzbekistan, Turkmenistan and European Union. Foreign trade export volume reached US\$4,780,000 in the first half year, representing a year-on-year growth of 64.8%. Therefore, the Group became the only infusion solution manufacturing enterprise among the big ten exporting enterprises of the PRC chemical pharmaceutical industry.

2. ***Substantial decline in antibiotics sales due to the impact of the national price reduction policy.***

On 28 March, the National Development and Reform Committee lowered the prices of numerous antibiotics. Among the Group's products, price of Lijunsha tablets was lowered by 10.0%, Lijunsha capsules was lowered by 28.9%, Lijunsha granules was lowered by 34.4%, while price of Paiqi lyophilized powder injection was lowered by 52.0%. The prices of other antibiotics were also reduced at different levels, whereby the sales of antibiotics was severely affected. In response to this critical situation, the Group made the best use of opportunities and determined to rectify the Lijunsha market on 20 April. Due to the strong effect of market control, sales of Lijunsha in the first half year amounted to HK\$191,653,000, representing a year-on-year decrease of 19.2%. Among which, sales of tablets amounted to HK\$157,348,000, representing a year-on-year decrease of 9.4%; sales of capsules amounted to HK\$6,912,000, representing a year-on-year decrease of 41.3%; sales of Lijunsha granules amounted to HK\$27,393,000, representing a year-on-year decrease of 46.5%.

As affected by the national price reduction, sales of Paiqi series of products decrease slightly. By overcoming various difficulties, the Group leveraged on the brand influence of "Chinese Well-known Trademark" and through end-user promotional exhibitions, end-user markets such as hospitals and clinics was further developed and the sales volume was maintained. Sales in the first half year amounted to HK\$63,655,000, decreased by 3.1% as compared with the corresponding period of last year. Sales of our antibiotics preparation, such as Limaixian, cephalosporin series and Erythromycin tablets remained relatively stable.

**3. *Steady development of key brand preparation and general medicines.***

According to the target of establishing “the Premier Brand of the PRC Microcirculation Medicines”, with continuous hospital academic promotion and end-market development, sales of Dobesilate in the first half of the year amounted to HK\$46,393,000, representing an increase of 6.0% as compared with the corresponding period of last year. Although we strengthened the clinical academic promotion and retained end-user hospitals, sales of Lixiding in the first half of the year amounted to HK\$18,103,000, representing a year-on-year decrease of 2.9% as affected by the price reduction policy. By leveraging on excellent quality and brand advantages, the Group exclusively won the tender in respect of basic medicines such as Gliclazide Tablets and Diltiazem Hydrochloride Tablets in Hubei, Shandong, Guangxi and other provinces and regions, gaining a rapid growth in sales volume. The market shares of Ambroxol Hydrochloride Orally Disintegrating Tablets, Cefaclor for Suspension and Cefuroxime Axetil Granules and other products gradually shows signs of improvement. In respect of general medicines, while adjusting the product structure and capitalizing the increase in sales of advantageous products, we also focus on strengthening tender work and end-user delivery, and managed to record sales of HK\$200,641,000 in the first half of the year, representing an increase of 17.7% as compared with the corresponding period of last year.

**4. Remarkable growth in sales of OTC new products and health care products.**

OTC products were less affected by the policy changes, thus continued to maintain a rapid growth momentum. Its sales volume in the first half of the year amounted to HK\$9,372,000, representing an increase of 31.0% as compared with the corresponding period of last year, among which, sales of "Kehao", which can clear lung, relieving cough and removing sputa, amounted to HK\$3,362,000, representing an increase of 46.3% as compared with last year through vigorous efforts to increase sales in important regions; sales of Weikoujia amounted to HK\$2,586,000, representing an increase of 32.3% as compared with the corresponding period of last year through seasonal and continuous sales promotion; sales of Lijungai amounted to HK\$1,716,000, representing an increase of 21.9% as compared with the corresponding period of last year through the additions of new specifications, focus on sales promotion and market rationalization. Sales of "Haogan", a newly launched influenza drug, amounted to HK\$2,794,000, and established a preliminary national marketing network through strengthening advertising promotion and end-users education.

**(2) New projects establishment and new products development**

**1. Infusion solution capacity expansion project was completed on schedule.**

New projects and technical innovations provided strong support for the transformation and upgrading of the Company. The modernized soft-packaging infusion solution project with an annual capacity of 500,000,000 bottles (bags) of the Group was listed in the planning programs under the 12th Five Year Plan of Shijiazhuang City. Couple with the requirements of new GMP, projects construction works has been almost completed, and it is expected to obtain the authentication and commence production in the second half of the year. After all the projects reached their design capacity, the Company's production capacity of intravenous infusion solutions will be doubled, and this will provide a strong backup for further expansion in both domestic and overseas market.

**2. *Product development and technical innovation has achieved progress.***

In the first half of the year, “new drug for curing Alzheimer’s disease MeN061016-1” of Xi’an Lijun Pharmaceutical obtained the authorization for compounds invention patent (ZL200710130249.4); “Technology Re-engineering on Erythromycin Ethylsuccinate Crystallization” obtained subsidy under the project on the technology upgrade of technical and major special medicines of large variety under the “New Key Drug Formulation of Twelfth Five-Year” by the Ministry of Science and Technology of China; the “Duan Xue Liu Capsules” project was awarded the Third Prize of Xi’an Scientific and Technological Advancement. Dirithromycin Enteric-coated Tablets (0.25g specification) obtained the clinical trial permit. Additional information on Lingzhihong soft capsules was reported to National Health Food Evaluation Centre; Edaravone raw materials and injection passed the on-site production examination of Drug Authentication Management Centre; Metformin Hydrochloride and Glipizide Tablets received the notice of additional information, and would enter the approval stage at the end of the year.

Shijiazhuang No. 4 Pharma achieved great progress in product development and technical innovation. It obtained 123 approvals of various types, overcame 21 technical innovation difficulties and the key technical innovation research project for soft-packaging infusion solution was awarded the First Prize of the Science and Technology Progress Award of Shijiazhuang City Science & Technology Bureau.

### 3. SECOND HALF YEAR OUTLOOK

In the second half of the year, the pharmaceutical industry will still face a severe operation environment, and in particular, the Ministry of Health will officially promulgate the “Classified Management Catalogue of Antibacterial Drugs in Clinical Application”, which will further exacerbate the competition in clinical medication end-markets such as hospitals. The Group will continue to strengthen the adjustment of product structure and management measures in product end-market in order to ensure the stability of the Company’s business and to lay a solid foundation for future development.

#### (1) Product marketing

1. ***Continue to expand the scale of production of infusion solutions and optimize the product mix and market structure.***

The Company will make every effort to ensure the full production of the new infusion solution production line, thereby further optimizing the infusion solution product mix, further expanding the production and sales proportion of non-glass bottle infusion solution and therapeutical infusion solution, and increase infusion solution varieties in the form of other new packages. The Company will maintain its leading position in terms of production scale and quality level of PP plastic bottle and Non-PVC soft bag in domestic market. More efforts will continue to be spent in increasing our overseas sales and focusing on the successful market development in APEC economic countries.

2. ***Adjusting the marketing model and stabilize antibiotics sales.***

We will accelerate the transformation in marketing model for our leading branded product, Lijunsha, by setting up end-user driving and flexible profit mechanism as well as establishing a county/region based distribution network across the country. We will highly focus on tender work and firmly concentrate on in-depth distribution and end-user promotion, making great effort to expand sale market of 30s Lijunsha and further focusing on the sales volume expansion of Lijunsha granules and capsules in order to ensure a stable sales for Lijunsha.

We will leverage the advantage of Paiqi series of products' "Chinese Well-known Trademark" and make great effort in end-user promotion for giving prominence to the brand marketing and quality shaping. Whilst consolidating and increasing the sales volume of lyophilized powder injection, we will strive for promoting the Paiqi oral intake series (dispersible tablets, capsules and dry suspension) and its sales volume increase through its brand influence. Whilst expanding the end-markets of Limaixian, including hospitals, clinics and community outpatient service, we will further focus on its sales in drugstores. We will operate cephalosporin powder injection products based on its scale of production and will strive to increase its sale volume in a careful operation.

To cope with the Administration for Clinical Application of Antibiotics Drugs to be issued shortly by the Ministry of Health, the Company will make its best effort in corresponding works to ensure its key products, which include Lijunsha, Paiqi, Limaixian and Cephalosporin to be ranked in Level Administration List of Clinical Application of Antibiotics Drugs in local hospitals, in order to strive for a stable sales in the second half of year.

- 3. *Focus on featured brand preparation to increase its sale volume and continue to increase the sale of general medicine.***
- Dobesilate is "the Premier Brand of the PRC Microcirculation Medicines" that we have devoted tremendous resources and carefully nurtured in recent years. the Company will continue to implement its strategy of developing hospital market and academic promotion. Meanwhile, we will further intensify the development of the OTC Dobesilate market expansion and strive to make this "double span" product exceeding the HK\$100,000,000 sales mark. With the 50mg infusion solutions as the main product, we will focus on the hospitals and departments small-scale promotion conference for Lixiding and strive to achieve the sale target for the year.

We will strengthen the marketing for general medicine, value the opportunities for general medicines brought by the State's new medical system reform, treasure the general medicines tendering and supplemental activities, further adjust production structure at the same time, pay attention to the selection of relatively advantageous characteristic products for general medicines to realize an increase in sales volume. We will improve our packing and marketing approaches for the bid-winning categories on the State's Essential Drug List, and strive to achieve new growth in sales volume through distribution and delivery to primary end-users.

**4. *Focusing on effective propaganda of Haogan influenza drugs and new OTC products to strive for an increase of sale volume.***

Haogan, a new strategic influenza drug, have obtained the National OTC new product promotion approval in early August, we will leverage the opportunity of its sales resources integration by focusing on effective propaganda, enhance market distribution for end-users, and strengthen drugstores promotion, in order to increase sale volume. For other featured OTC products, together with the transformation of the marketing model, we will implement the general concept of "End-users attraction, profit driven and fixed price" to substantially expand end-users sale network and ensure a rapid growth.

**(2) Accelerate new products research and development as well as the progress of application and approval**

Xi'an Lijun Pharmaceutical will use its best endeavor to obtain the new drug certificates and production permits for three of its products, namely, the Edaravone raw material and injection, Compound Metformin Hydrochloride and Glipizide Tablets and the Nalmefene Hydrochloride raw material and injection. It will also strive for obtaining the health food permits for Lingzhihong Capsules with hypoglycemic and hypolipidemic effect. Phase II clinical trial for our new Class III anaesthetic medicine, Dexmedetomidine Hydrochloride Injection will be completed, the construction project of strain breeding platform for the Industry and Information Technology Department of Shaanxi Province will be launched, the raw material technology transfer among Flupentixol and Melitracen Tablets, Ursodeoxycholic Acid Capsules and Moxifloxacin Hydrochloride Tablets will be completed, two clinical trial application for Type 1.5 new drug Compound Dexibuprofen Sustained-release Double-layer Tablets and Compound Alanyl Glutamine Double-layer Tablets will be made and research on the effect mechanism of Type 1.1 new drug for curing Alzheimer's disease will be completed.

Shijiazhuang No. 4 Pharma will strive for obtaining the production permits for upright soft bag infusion solution and Glycine Irrigation Solution with independent intellectual property, as well as for Cetirizine Hydrochloride Tablets. At the same time, It will strengthen the research and development for compound electrocular irrigating solution and Pediatric Electrolyte Supplements Injection, and continuously expanding our new products reserve. Utilizing the platform of the enterprise technical centre in Hebei Province, we will strengthen our co-operation with tertiary institutions, as well as national level scientific research centres. We will also proactively procure the establishment of the large volume injection engineering technological center in Hebei Province in order to improve our capabilities in research and development.

In general, facing the current difficulties and challenges in pharmaceutical industry, we will take active measures to further adjusting structure, changing model, strengthen management, reduce cost , expand sale volume, increase market share to establish a solid foundation for the Group's future development. As a result, we are confident with the Group's future development.

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

**Wu Qin**  
*Chairman*

Hong Kong, 26 August 2011

## MANAGEMENT DISCUSSION AND ANALYSIS

### SALES

The Group's total sales increased from HK\$988,814,000 for the corresponding period last year by 10.1% to HK\$1,088,903,000 for the six months ended 30 June 2011.

|   | For the six months ended 30 June |                             |                          |                             |             |
|---|----------------------------------|-----------------------------|--------------------------|-----------------------------|-------------|
|   | 2011                             |                             | 2010                     |                             | Change<br>% |
|   | Sales<br><i>HK\$'000</i>         | Percentage<br>of sales<br>% | Sales<br><i>HK\$'000</i> | Percentage<br>of sales<br>% |             |
| Intravenous Infusion Solution                   | 491,486                          | 45.2                        | 377,186                  | 38.1                        | 30.3        |
| (Including: PP Plastic Bottle Infusion Solution | 178,495                          | 16.4                        | 147,066                  | 14.9                        | 21.4        |
| Non-PVC Soft Bag Infusion Solution)             | 164,895                          | 15.1                        | 109,055                  | 11.0                        | 51.2        |
| Antibiotics                                     | 343,293                          | 31.5                        | 390,229                  | 39.5                        | (12.0)      |
| (Including: Lijunsha Paiqi)                     | 191,653                          | 17.6                        | 237,092                  | 24.0                        | (19.2)      |
|   | 63,655                           | 5.8                         | 65,725                   | 6.6                         | (3.1)       |
| Non-antibiotics finished medicines              | 200,641                          | 18.4                        | 170,492                  | 17.2                        | 17.7        |
| (Including: Dobesilate Lixiding)                | 46,393                           | 4.3                         | 43,760                   | 4.4                         | 6.0         |
|   | 18,103                           | 1.7                         | 18,648                   | 1.9                         | (2.9)       |
| Sales of bulk pharmaceuticals                   | 53,483                           | 4.9                         | 50,907                   | 5.2                         | 5.1         |
| <b>Group's total sales</b>                      | <b>1,088,903</b>                 | <b>100</b>                  | <b>988,814</b>           | <b>100</b>                  | <b>10.1</b> |

## **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 2011 was HK\$491,486,000 (30 June 2010: HK\$377,186,000), in which sales of intravenous infusion solution products accounted for HK\$434,363,000 (30 June 2010: HK\$341,330,000).

Among the intravenous infusion solution products, sales of PP Plastic Bottle Infusion Solution and Non-PVC Soft Bag Infusion Solution was HK\$343,390,000, an increase of 34.1% as compared with corresponding period of last year and accounted for 79.1% of total sales of intravenous infusion solution; sales of Glass Bottle Infusion Solution was HK\$90,973,000, an increase of 6.8% as compared with corresponding period of last year and accounted for 20.9% of total sales of intravenous infusion solution. The increase in sales was mainly attributable to market expansion and improvement in production capacity utilization rate.

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**

For the six months ended 30 June 2011, sales of Lijunsha decreased by 19.2% to HK\$191,653,000 (30 June 2010: HK\$237,092,000), sales of Paiqi decreased by 3.1% to HK\$63,655,000 (30 June 2010: HK\$65,725,000), which were due to the effect of new volume and price limit policy as released by the PRC government for the antibiotics products. Overall sales of antibiotics finished medicines decreased by 12.0% to HK\$343,293,000 (30 June 2010: HK\$390,229,000).

Reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 39.5% for the six months ended 30 June 2010 to 31.5% for the six months ended 30 June 2011, and sales proportion of Lijunsha accounted for only 17.6% of the total Group's sales for the six months ended 30 June 2011, comparing to 24.0% in the same period last year.

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

Thanks to the expanded sales network in small-to-medium sized of cities and rural areas, sales of the Group's non-antibiotics finished medicines increased by 17.7% to HK\$200,641,000 (30 June 2010: HK\$170,492,000), sales of Dobesilate increased by 6.0% to HK\$46,393,000 (30 June 2010: HK\$43,760,000), whilst sales of Lixiding decreased slightly by 2.9% to HK\$18,103,000 (30 June 2010: HK\$18,648,000) due to price reduction.

### **BULK PHARMACEUTICALS**

Export sales of bulk pharmaceuticals for the six months ended 30 June 2011 amounted to HK\$53,483,000, increased by 5.1% as compared to the corresponding period last year of HK\$50,907,000.

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

Cost of goods sold increased by 25.8% to HK\$602,624,000 for the six months ended 30 June 2011 as compared to the corresponding period last year of HK\$479,086,000. The cost of direct materials, direct labour and other costs represented approximately 71%, 12% and 17% of the total cost of goods sold respectively, while their comparative percentage for 2010 were 73%, 11% and 16% respectively.

For the six months ended 30 June 2011, the Group recorded a total gross profit of HK\$486,279,000. Overall gross profit margin had decreased by 6.8 percentage point to 44.7% for the six months ended 30 June 2011, from 51.5% for the corresponding period last year. The decrease of gross profit margin was due to the factors that include price reduction of main products; cost increase (including raw and auxiliary materials and packaging materials, labour and utility charges), and newly added urban maintenance and construction tax and educational surcharge (including as production costs) for the period.

### **SELLING AND MARKETING EXPENSES**

For the six months ended 30 June 2011, selling and marketing expenses amounted to approximately HK\$211,267,000 (30 June 2010: HK\$226,089,000), which mainly consisted of advertising expenses of approximately HK\$28,792,000 (30 June 2010: HK\$29,171,000), sales commission of approximately HK\$88,892,000 (30 June 2010: HK\$95,757,000), salary expenses of sales and marketing staff of approximately HK\$31,476,000 (30 June 2010: HK\$33,440,000) and transportation cost of approximately HK\$28,529,000 (30 June 2010: HK\$31,539,000).

Selling and marketing expenses decreased by 6.6% for the six months ended 30 June 2011 as compared with that of the corresponding period last year.

### **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the six months ended 30 June 2011 was HK\$101,855,000 (30 June 2010: HK\$102,160,000), decreased by 0.3% 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\$42,994,000 (30 June 2010: HK\$39,787,000) and depreciation and amortisation of approximately HK\$25,664,000 (30 June 2010: HK\$22,281,000).

### **OPERATING PROFIT**

For the six months ended 30 June 2011, the Group's operating profit amounted to HK\$173,047,000 representing a decrease of 3.6% as compared to that of the corresponding period last year, whereas operating profit margin (defined as operating profit divided by total sales) decreased from 18.1% to 15.9%.

### **FINANCE COSTS**

The Group's finance costs for the period amounted to HK\$11,534,000 (30 June 2010: HK\$14,714,000), of which HK\$11,172,000 (30 June 2010: HK\$13,226,000) related to bank borrowings. 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.

### **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 2011, the overall income tax expense amounted HK\$28,103,000 (30 June 2010: HK\$26,105,000).

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

The profit attributable to equity holders of the Company for the six months ended 30 June 2011 decreased by 3.8% to HK\$135,010,000 while net profit margin (defined as profit attributable to equity holders of the Company for the period divided by total sales) decreased to 12.4% from 14.2% for the corresponding period last year.

Profit attributable to equity holders of the Company in the full year of 2010 amounting to HK\$260,592,000, net profit margin is 13.2%.

### **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 2011, the cash and cash equivalents aggregated to HK\$369,604,000 (31 December 2010: HK\$598,911,000), comprising HK\$170,665,000 (31 December 2010: HK\$316,387,000) of cash and cash equivalents denominated in Hong Kong dollars, HK\$188,110,000 (31 December 2010: HK\$280,987,000) in RMB and HK\$10,829,000 (31 December 2010: HK\$1,537,000) in other currencies.

As at 30 June 2011, the Group has restricted deposits amounting to HK\$3,929,000 (31 December 2010: HK\$30,531,000) as guarantee of the bills payables.

The carrying amounts of the borrowings amounting to HK\$376,452,000 as at 30 June 2011 (31 December 2010: HK\$433,146,000), comprising HK\$58,090,000 (31 December 2010: HK\$80,590,000) of borrowings denominated in Hong Kong dollars and HK\$318,362,000 (31 December 2010: HK\$352,556,000) in RMB.

As at 30 June 2011, the net gearing ratio (defined as bank borrowings less pledged bank deposits and cash and cash equivalents divided by total equity less non-controlling interests) was 0.1% (as at 31 December 2010, the cash and cash equivalents and pledged bank deposits exceeded bank borrowings by HK\$196,296,000).

Current ratio (defined as current assets divided by current liabilities) increased from 1.76 as at 31 December 2010 to 2.11 as at 30 June 2011.

### **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 2011.

### **PLEDGE OF ASSETS**

As at 30 June 2011, the Group's land use rights, property, plant and equipment with the net book amount of approximately HK\$42,240,000 and HK\$204,994,000 respectively and restricted deposits of HK\$3,929,000 were pledged as collateral for the Group's bank borrowings and bills payables.

### **CONTINGENT LIABILITIES**

As at 30 June 2011, the Group did not have any significant contingent liabilities.

### **INTERIM DIVIDEND**

The Directors resolved to pay on 30 September 2011 an interim dividend of HK\$0.02 per share (amounting to a total of approximately HK\$48,896,000) for the six months ended 30 June 2011 to the shareholders named in the register of members of the Company on 16 September 2011. The interim dividend represents a payout rate of 36.2% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2011.

### **EXCHANGE RATE**

As at 2011 and 2010, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

|                  |         |
|------------------|---------|
| 1 January 2010   | 0.88048 |
| 30 June 2010     | 0.87239 |
| 31 December 2010 | 0.85093 |
| 30 June 2011     | 0.83162 |

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

Save for the purchase of 4,050,000 shares in May 2011 and June 2011 which details are set out in the next paragraph, 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 2011.

For the six months ended 30 June 2011, the Company acquired an aggregate of 4,050,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (including transaction costs) of HK\$6,756,518 with a view to benefit shareholders as a whole in enhancing the net assets value and earnings per share of the Company. All of the purchased shares were subsequently cancelled on 30 June 2011.

| <b>Date of the purchases</b> | <b>Total number of the ordinary shares purchased</b> | <b>Highest price paid per share<br/><i>HK\$</i></b> | <b>Lowest price paid per share<br/><i>HK\$</i></b> | <b>Aggregate consideration<br/><i>HK\$</i></b> |
|------------------------------|--|---|--|--|
| 30 May 2011                  | 1,150,000  | 1.68  | 1.66   | 1,926,053                                      |
| 31 May 2011                  | 350,000  | 1.67  | 1.67   | 586,850  |
| 9 June 2011                  | <u>2,550,000</u>                                     | 1.68  | 1.60   | <u>4,243,615</u>                               |
|                              | <u>4,050,000</u>                                     |   |  | <u>6,756,518</u>                               |

### **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 4 October 2010, all of the share options granted were exercised.

## 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 2011, 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 2011 was HK\$143,580,000 (30 June 2010: HK\$125,257,000).

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

As at 30 June 2011, 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. Wu Qin       | Beneficial owner                                       | 15,420,000            | 0.63%   |
| Mr. Qu Jiguang   | Interest in a controlled corporation ( <i>Note 1</i> ) | 571,500,000           | 23.38%  |

*Notes:*

1. 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 2011, 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 2011 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 2011, 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             | 26.25%  |
| CPCL <i>(Note 2)</i>                             | Beneficial owner                                   | 571,500,000             | 23.38%  |
| Mr. Qu Jiguang                                   | Interest of controlled corporation <i>(Note 2)</i> | 571,500,000             | 23.38%  |
| Value Partners Limited <i>(Note 3)</i>           | Investment manager                                 | 168,465,000             | 6.89%   |
| Value Partners Group Limited <i>(Note 3)</i>     | Interest of controlled corporation                 | 168,465,000             | 6.89%   |
| Cheah Capital Management Limited <i>(Note 3)</i> | Interest of controlled corporation                 | 168,465,000             | 6.89%   |
| Cheah Company Limited <i>(Note 3)</i>            | Interest of controlled corporation                 | 168,465,000             | 6.89%   |

| <b>Name of Shareholder</b>                               | <b>Capacity</b>   | <b>Number of shares</b> | <b>% of the issued share capital of the Company</b> |
|--|---|-------------------------|---|
| Hang Seng Bank Trustee International Limited<br>(Note 3) | Trustee   | 168,465,000             | 6.89%   |
| Mr. Cheah Cheng Hye<br>(Note 3)                          | Interest of controlled corporation and founder of a discretionary trust | 168,465,000             | 6.89%   |
| Ms. To Hau Yin (Note 3)                                  | Interest of spouse  | 168,465,000             | 6.89%   |

*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 3,100 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 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.

### **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 2011.

### **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 2011, 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 2011 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 2011.

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

The register of members of the Company will be closed from Wednesday, 14 September, 2011 to Friday, 16 September, 2011 (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 Monday, 12 September, 2011.

On behalf of the Board

**Wu Qin**

*Chairman*

Hong Kong, 26 August 2011



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 30 to 56, 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 2011 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 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, 26 August 2011

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2011

(All amounts in HK\$ unless otherwise stated)

|   | Note | 30 June<br>2011<br>Unaudited<br>HK\$'000 | 31 December<br>2010<br>Audited<br>HK\$'000 |
|---|------|--|--|
| <b>ASSETS</b>   |      |  |  |
| <b>Non-current assets</b>   |      |  |  |
| Land use rights   | 7    | 217,726                                  | 215,565                                    |
| Property, plant and equipment   | 7    | 1,104,327                                | 994,067                                    |
| Intangible assets   | 7    | 555,354                                  | 551,977                                    |
| Deferred income tax assets  |      | 19,979                                   | 21,200                                     |
| Available-for-sale financial assets                                       |      | 155                                      | 152  |
| <b>Total non-current assets</b>   |      | <b>1,897,541</b>                         | 1,782,961                                  |
| <b>Current assets</b>   |      |  |  |
| Inventories   |      | 329,522                                  | 298,607                                    |
| Trade and bill receivables  | 8    | 636,834                                  | 484,968                                    |
| Financial assets at fair value<br>through profit or loss                  |      | 1,199                                    | –  |
| Prepayments, deposits and other receivables                               |      | 158,689                                  | 176,733                                    |
| Pledged bank deposits   |      | 3,929                                    | 30,531                                     |
| Cash and cash equivalents   |      | 369,604                                  | 598,911                                    |
| <b>Total current assets</b>   |      | <b>1,499,777</b>                         | 1,589,750                                  |
| <b>Total assets</b>   |      | <b>3,397,318</b>                         | 3,372,711                                  |
| <b>EQUITY</b>   |      |  |  |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |  |  |
| Share capital   | 9    | 55,703                                   | 55,905                                     |
| Reserves  | 10   | 2,429,382                                | 2,299,214                                  |
|   |      | <b>2,485,085</b>                         | 2,355,119                                  |
| <b>Non-controlling interests</b>  |      | <b>1,194</b>                             | 1,178                                      |
| <b>Total equity</b>   |      | <b>2,486,279</b>                         | 2,356,297                                  |

|  | <i>Note</i> | <b>30 June<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|--|-------------|--|--|
| <b>LIABILITIES</b>                           |             |  |  |
| <b>Non-current liabilities</b>               |             |  |  |
| Borrowings                                   | 13          | <b>153,044</b>                                     | 66,594                                     |
| Deferred income tax liabilities              |             | <b>26,394</b>                                      | 26,250                                     |
| Deferred revenue                             |             | <b>4,930</b>                                       | 4,818                                      |
| Long-term payables                           | 11          | <b>14,364</b>                                      | 15,058                                     |
| <b>Total non-current liabilities</b>         |             | <b>198,732</b>                                     | 112,720                                    |
| <b>Current liabilities</b>                   |             |  |  |
| Trade and bill payables                      | 12          | <b>274,711</b>                                     | 206,322                                    |
| Advanced receipts from customers             |             | <b>13,406</b>                                      | 23,276                                     |
| Accruals and other payables                  |             | <b>187,464</b>                                     | 289,832                                    |
| Income tax payable                           |             | <b>13,318</b>                                      | 17,712                                     |
| Borrowings                                   | 13          | <b>223,408</b>                                     | 366,552                                    |
| <b>Total current liabilities</b>             |             | <b>712,307</b>                                     | 903,694                                    |
| <b>Total liabilities</b>                     |             | <b>911,039</b>                                     | 1,016,414                                  |
| <b>Total equity and liabilities</b>          |             | <b>3,397,318</b>                                   | 3,372,711                                  |
| <b>Net current assets</b>                    |             | <b>787,470</b>                                     | 686,056                                    |
| <b>Total assets less current liabilities</b> |             | <b>2,685,011</b>                                   | 2,469,017                                  |

**WU QIN**  
*DIRECTOR*

**QU JIGUANG**  
*DIRECTOR*

The notes on page 36 to 56 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

(All amounts in HK\$ unless otherwise stated)

|  | Note | Six months ended 30 June      |                               |
|--|------|-------------------------------|-------------------------------|
|  |      | 2011<br>Unaudited<br>HK\$'000 | 2010<br>Unaudited<br>HK\$'000 |
| Revenue  | 6    | 1,088,903                     | 988,814                       |
| Cost of sales                                    |      | (602,624)                     | (479,086)                     |
| <b>Gross profit</b>                              |      | <b>486,279</b>                | 509,728                       |
| Other losses – net                               |      | (110)                         | (2,012)                       |
| Selling and marketing costs                      |      | (211,267)                     | (226,089)                     |
| General and administrative expenses              |      | (101,855)                     | (102,160)                     |
| <b>Operating profit</b>                          | 14   | <b>173,047</b>                | 179,467                       |
| Finance income                                   |      | 1,616                         | 1,654                         |
| Finance costs                                    |      | (11,534)                      | (14,714)                      |
| Finance costs – net                              |      | (9,918)                       | (13,060)                      |
| <b>Profit before income tax</b>                  |      | <b>163,129</b>                | 166,407                       |
| Income tax expenses                              | 15   | (28,103)                      | (26,105)                      |
| <b>Profit for the period</b>                     |      | <b>135,026</b>                | 140,302                       |
| <b>Other comprehensive income:</b>               |      |                               |                               |
| Currency translation differences                 |      | 50,697                        | 17,571                        |
| <b>Total comprehensive income for the period</b> |      | <b>185,723</b>                | 157,873                       |
| <b>Profit attributable to:</b>                   |      |                               |                               |
| – Equity holders of the Company                  |      | 135,010                       | 140,278                       |
| – Non-controlling interests                      |      | 16                            | 24                            |
|  |      | <b>135,026</b>                | 140,302                       |

|  |             | <b>Six months ended 30 June</b>        |                               |
|--|-------------|--|-------------------------------|
|  | <i>Note</i> | <b>2011<br/>Unaudited<br/>HK\$'000</b> | 2010<br>Unaudited<br>HK\$'000 |
| <b>Total comprehensive income attributable to:</b>   |             |  |                               |
| – Equity holders of the Company  |             | <b>185,707</b>                         | 157,840                       |
| – Non-controlling interests  |             | <b>16</b>                              | 33                            |
|  |             | <b>185,723</b>                         | 157,873                       |
| <b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)</b> |             |  |                               |
| – Basic  | 17          | <b>0.0552</b>                          | 0.0632                        |
| – Diluted  | 17          | <b>0.0552</b>                          | 0.0614                        |
| <b>Dividends</b>   | 16          | <b>48,896</b>                          | 47,098                        |

The notes on page 36 to 56 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

(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                  |              |
| <b>Balance at 1 January 2011</b>                | 55,905  | 2,299,214 | 2,355,119 | 1,178                     | 2,356,297    |
| <b>Comprehensive income</b>                     |   |           |           |                           |              |
| Profit for the period                           | –   | 135,010   | 135,010   | 16                        | 135,026      |
| <b>Other comprehensive income</b>               |   |           |           |                           |              |
| Currency translation differences                | –   | 50,697    | 50,697    | –                         | 50,697       |
| <b>Total comprehensive income</b>               | –   | 185,707   | 185,707   | 16                        | 185,723      |
| <b>Transactions with owners</b>                 |   |           |           |                           |              |
| Repurchase of the Company's shares (Note 10)    | –   | (6,757)   | (6,757)   | –                         | (6,757)      |
| Cancellation of shares repurchased (Note 10)    | (202)   | 195       | (7)       | –                         | (7)          |
| Dividends paid to equity holders of the Company | –   | (48,977)  | (48,977)  | –                         | (48,977)     |
| <b>Total transactions with owners</b>           | (202)   | (55,539)  | (55,741)  | –                         | (55,741)     |
| <b>Balance at 30 June 2011</b>                  | 55,703  | 2,429,382 | 2,485,085 | 1,194                     | 2,486,279    |
| <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    |

The notes on page 36 to 56 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2011*

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

|   | Six months ended 30 June      |                               |
|---|-------------------------------|-------------------------------|
|   | 2011<br>Unaudited<br>HK\$'000 | 2010<br>Unaudited<br>HK\$'000 |
| Cash flows generated from operating activities – net              | 92,414                        | 152,723                       |
| Cash flows used in investing activities – net                     | (227,642)                     | (57,512)                      |
| Cash flows (used in)/generated<br>from financing activities – net | (95,124)                      | 409,425                       |
| Net (decrease)/increase in cash and cash equivalents              | (230,352)                     | 504,636                       |
| Cash and cash equivalents at 1 January                            | 598,911                       | 184,964                       |
| Effect of foreign exchange rate changes                           | 1,045                         | 2,986                         |
| Cash and cash equivalents at 30 June                              | 369,604                       | 692,586                       |

The notes on page 36 to 56 form an integral part of this condensed consolidated interim financial information.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*For the six months ended 30 June 2011*

*(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 26 August 2011.

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 2011 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 2010, 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 2010, 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 2011:

- HKAS 24 (Revised), “Related Party Disclosures” is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

**3 ACCOUNTING POLICIES** *(Continued)*

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

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group:

- Amendment to HKAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.
- Amendment to HK(IFRIC) – Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.
- HK(IFRIC) – Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by both IASB and the HKICPA, except for amendment to HKAS 34 'Interim financial reporting' as disclosed in Note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

**3 ACCOUNTING POLICIES** *(Continued)*

- (c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

| Standards              | Amendments  | Effective date |
|------------------------|---|----------------|
| HKFRS 9                | Financial instruments: Classification and measurement of financial assets | 1 January 2013 |
| HKAS 12<br>(Amendment) | Deferred tax: Recovery of underlying assets                               | 1 January 2012 |
| HKFRS 7<br>(Amendment) | Disclosures – Transfers of financial assets                               | 1 July 2011    |

**4 ESTIMATES**

The preparation of interim financial statements 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 these condensed consolidated interim financial statements, 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 2010.

**5 FINANCIAL RISK MANAGEMENT**

**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 statements 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 financial statements as at 31 December 2010.

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

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

**5.2 Liquidity risk**

Compared to year end, there was no material change in the contractual undiscounted cash outflows 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 2011, the Group has financial instruments with amount of HKD1,199,000 (31 December 2010: Nil). The fair value of financial assets traded in active markets (such as financial assets at fair value through profit or loss) that were recorded during the period ended 30 June 2011 is based on quoted market prices at the reporting date (level 1).

The carrying value less impairment provision of receivables 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 2011, 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.

For the six months ended 30 June 2011, there were no 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 decision-maker considers the business from a product perspective. From a product perspective, the decision-maker 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.

6 SEGMENT INFORMATION (Continued)

|  | Unaudited                                       |                                       |                         | Total<br>HK\$'000 |
|--|---|---------------------------------------|-------------------------|-------------------|
|  | Intravenous<br>infusion<br>solution<br>HK\$'000 | Antibiotics<br>and others<br>HK\$'000 | Unallocated<br>HK\$'000 |                   |
| <b>Six months ended<br/>30 June 2011</b>           |   |                                       |                         |                   |
| <b>Revenue</b>                                     | 491,486   | 597,417                               | –                       | 1,088,903         |
| <b>Operating profit/(loss)<br/>segment results</b> | 115,737   | 67,672                                | (10,362)                | 173,047           |
| Finance income                                     | 544   | 301                                   | 771                     | 1,616             |
| Finance costs                                      | (5,843)   | (4,156)                               | (1,535)                 | (11,534)          |
| <b>Profit/(loss) before<br/>income tax</b>         | 110,438   | 63,817                                | (11,126)                | 163,129           |
| Income tax expenses                                | (17,815)  | (10,288)                              | –                       | (28,103)          |
| <b>Profit/(loss) for the period</b>                | 92,623  | 53,529                                | (11,126)                | 135,026           |
| <b>Six months ended<br/>30 June 2010</b>           |   |                                       |                         |                   |
| <b>Revenue</b>                                     | 377,186   | 611,628                               | –                       | 988,814           |
| <b>Operating profit/(loss)<br/>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<br/>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           |

**6 SEGMENT INFORMATION** (Continued)

|                               | Unaudited  |  |                                |                          |
|-------------------------------|--|--|--------------------------------|--------------------------|
|                               | Intravenous<br>infusion<br>solution<br><i>HK\$'000</i> | Antibiotics<br>and others<br><i>HK\$'000</i> | Unallocated<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
| <b>As at 30 June 2011</b>     |  |  |                                |                          |
| <b>Total assets</b>           | 2,034,342  | 1,192,550                                    | 170,426                        | 3,397,318                |
| <b>Total liabilities</b>      | 611,912  | 272,735                                      | 26,392                         | 911,039                  |
|                               | Audited  |  |                                |                          |
|                               | Intravenous<br>infusion<br>solution<br><i>HK\$'000</i> | Antibiotics<br>and others<br><i>HK\$'000</i> | Unallocated<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
| <b>As at 31 December 2010</b> |  |  |                                |                          |
| <b>Total assets</b>           | 1,843,768  | 1,209,169                                    | 319,774                        | 3,372,711                |
| <b>Total liabilities</b>      | 554,886  | 422,793                                      | 38,735                         | 1,016,414                |

7 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

|                                | Unaudited                             |  |                             |  |
|--------------------------------|---------------------------------------|--|-----------------------------|--|
|                                | Land use<br>rights<br><i>HK\$'000</i> | Property,<br>plant and<br>equipment<br><i>HK\$'000</i> | Goodwill<br><i>HK\$'000</i> | Other<br>intangible<br>assets<br><i>HK\$'000</i> |
| <b>Six months ended</b>        |                                       |  |                             |  |
| <b>30 June 2011</b>            |                                       |  |                             |  |
| <b>Opening net book amount</b> |                                       |  |                             |  |
| <b>as at 1 January 2011</b>    | 215,565                               | 994,067  | 472,162                     | 79,815   |
| Additions                      | –                                     | 139,215  | –                           | –  |
| Disposals                      | –                                     | (6,129)  | –                           | –  |
| Depreciation/Amortisation      | (2,844)                               | (45,404)   | –                           | (9,332)  |
| Exchange differences           | 5,005                                 | 22,578   | 10,964                      | 1,745  |
| <b>Closing net book amount</b> |                                       |  |                             |  |
| <b>as at 30 June 2011</b>      | 217,726                               | 1,104,327  | 483,126                     | 72,228   |
| <b>Six months ended</b>        |                                       |  |                             |  |
| <b>30 June 2010</b>            |                                       |  |                             |  |
| <b>Opening net book amount</b> |                                       |  |                             |  |
| <b>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</b> |                                       |  |                             |  |
| <b>as at 30 June 2010</b>      | 208,527                               | 841,209  | 460,547                     | 86,761   |

**7 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS** *(Continued)*

As at 30 June 2011, the Group's land use rights and property, plant and equipment with net book amounts of HK\$42,240,000 (31 December 2010: HK\$65,449,000) and HK\$204,994,000 (31 December 2010: HK\$246,749,000) respectively were pledged as collateral for the Group's bank borrowings (Note 13).

**8 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<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|--------------------------------|--|--|
| Within 3 months                | <b>546,678</b>                                     | 441,976                                    |
| 4 to 6 months                  | <b>60,671</b>                                      | 28,462                                     |
| 7 to 12 months                 | <b>27,468</b>                                      | 9,000                                      |
| 1 to 2 years                   | <b>5,348</b>                                       | 9,212                                      |
| 2 to 3 years                   | <b>2,274</b>                                       | 9,808                                      |
| More than 3 years              | <b>10,760</b>                                      | 3,966                                      |
|                                | <b>653,199</b>                                     | 502,424                                    |
| Less: Provision for impairment | <b>(16,365)</b>                                    | (17,456)                                   |
|                                | <b>636,834</b>                                     | 484,968                                    |

9 SHARE CAPITAL

|  | Number of<br>shares<br><i>'000</i> | Ordinary<br>shares<br><i>HK\$'000</i> |
|--|------------------------------------|---------------------------------------|
| <b>Authorised</b>  |                                    |                                       |
| At 30 June 2010 and 2011 (ordinary shares with<br>par value of HK\$ 0.02 each) | 10,000,000                         | 200,000                               |
| <b>Issued and fully paid up</b>  |                                    |                                       |
| At 1 January 2011  | 2,454,904                          | 55,905                                |
| Cancellation of repurchased Company's shares<br>(Note 10(b))                   | (10,090)                           | (202)                                 |
| At 30 June 2011 (unaudited)  | 2,444,814                          | 55,703                                |
| 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                                |

**10 RESERVES**

|  | Unaudited                    |  |                                |                                   |   |                                  | Total<br>HK\$'000 |
|--|------------------------------|--|--------------------------------|-----------------------------------|---|----------------------------------|-------------------|
|  | Share<br>premium<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Statutory<br>reserves<br>HK\$'000 | Share-based<br>payment<br>reserve<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 |                   |
| <b>At 1 January 2011</b>                           | 1,371,873                    | –  | 176,670                        | 173,241                           | –   | 577,430                          | 2,299,214         |
| Repurchase of the<br>Company's shares (a)          | –                            | –  | –                              | –                                 | –   | (6,757)                          | (6,757)           |
| Cancellation of shares<br>repurchased (b)          | –                            | 202  | –                              | –                                 | –   | (7)                              | 195               |
| Dividends paid to equity<br>holders of the Company | –                            | –  | –                              | –                                 | –   | (48,977)                         | (48,977)          |
| Profit for the period                              | –                            | –  | –                              | –                                 | –   | 135,010                          | 135,010           |
| Currency translation<br>differences                | –                            | –  | –                              | –                                 | –   | 50,697                           | 50,697            |
| <b>At 30 June 2011</b>                             | 1,371,873                    | 202  | 176,670                        | 173,241                           | –   | 707,396                          | 2,429,382         |
| <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<br>holders of the Company | –                            | –  | –                              | –                                 | –   | (47,098)                         | (47,098)          |
| Profit for the period                              | –                            | –  | –                              | –                                 | –   | 140,278                          | 140,278           |
| Currency translation<br>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         |

- (a) During the period from 30 May 2011 to 9 June 2011, the Company repurchased 4,050,000 ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK\$6,757,000, which had been deducted from retained earnings within shareholders' equity.
- (b) On 14 January 2011 and 30 June 2011, the Company cancelled 6,040,000 and 4,050,000 ordinary shares repurchased respectively. Directly attributable expenses of approximately HK\$7,000 relating to the cancellation were charged against the retained earnings of the Company. After the cancellation, the Company's ordinary shares in issue were reduced from 2,454,904,000 to 2,444,814,000 (Note 9). The amount of share capital cancelled at HK\$202,000 was transferred from share capital to capital redemption reserve.

**11 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<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|---|--|--|
| Within 1 year   | 1,237  | 1,435                                      |
| Between 1 to 2 years                                  | 965  | 1,050                                      |
| Between 2 to 5 years                                  | 2,506  | 2,606                                      |
| More than 5 years                                     | 10,893   | 11,402                                     |
|   | <b>15,601</b>                                      | 16,493                                     |
| Less: Current portion included in current liabilities | <b>(1,237)</b>                                     | (1,435)                                    |
|   | <b>14,364</b>                                      | 15,058                                     |

**12 TRADE AND BILL PAYABLES**

Ageing analysis of trade and bill payables is as follows:

|                   | <b>30 June<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|-------------------|--|--|
| Within 3 months   | 207,413  | 170,213                                    |
| 4 to 6 months     | 49,087   | 21,521                                     |
| 7 to 12 months    | 11,429   | 9,723                                      |
| 1 to 3 years      | 5,453  | 3,556                                      |
| More than 3 years | 1,329  | 1,309                                      |
|                   | <b>274,711</b>                                     | 206,322                                    |

**13 BORROWINGS**

|  | <b>30 June<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|--|--|--|
| <b>Non-current</b>                               |  |  |
| Non-current portion of long-term bank borrowings | <b>153,044</b>                                     | 66,594                                     |
| <b>Current</b>                                   |  |  |
| Current portion of long-term bank borrowings     | <b>48,099</b>                                      | 35,256                                     |
| Short-term bank borrowings                       | <b>175,309</b>                                     | 331,296                                    |
|  | <b>223,408</b>                                     | 366,552                                    |
| <b>Total borrowings</b>                          | <b>376,452</b>                                     | 433,146                                    |
| Representing:                                    |  |  |
| Unsecured  | <b>256,205</b>                                     | 213,777                                    |
| Secured (i)                                      | <b>120,247</b>                                     | 176,278                                    |
| Guaranteed (ii)                                  | –  | 43,091                                     |
|  | <b>376,452</b>                                     | 433,146                                    |

- (i) As at 30 June 2011, certain borrowings of the Group were secured by the Group's land use rights with a net book amount of HK\$42,240,000 and the Group's property, plant and equipment with a net book amount of HK\$204,994,000. As at 31 December 2010 certain borrowings of the Group were secured by the Group's land use rights with a net book amount of HK\$65,449,000 and the Group's property, plant and equipment with a net book amount of HK\$246,749,000.
- (ii) As at 31 December 2010, certain of the Group's bank borrowings 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 2011 were HK\$11,172,000 (six months ended 30 June 2010: HK\$13,226,000).

**13 BORROWINGS** *(Continued)*

Movements in borrowings were analysed as follows:

|                                      | <b>Unaudited</b><br><b>HK\$'000</b> |
|--------------------------------------|-------------------------------------|
| <b>Six months ended 30 June 2011</b> |                                     |
| As at 1 January 2011                 | 433,146                             |
| Proceeds from borrowings             | 338,481                             |
| Repayments of borrowings             | (404,467)                           |
| Exchange differences                 | 9,292                               |
| <b>As at 30 June 2011</b>            | <b>376,452</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>                      |

**14 OPERATING PROFIT**

The following items have been charged/(credited) to the operating profit during the six months ended 30 June 2011 and 2010:

|  | <b>Six months ended 30 June</b>                    |                               |
|--|--|-------------------------------|
|  | <b>2011</b><br><b>Unaudited</b><br><b>HK\$'000</b> | 2010<br>Unaudited<br>HK\$'000 |
| (Gain)/Loss on disposal of property, plant and equipment | <b>(142)</b>                                       | 86                            |
| Depreciation of property, plant and equipment            | <b>45,404</b>                                      | 38,294                        |
| Reversal of provision for impairment of inventories      | <b>(580)</b>                                       | (698)                         |
| (Reversal of)/Provision for impairment of receivables    | <b>(3,384)</b>                                     | 4,700                         |
| Amortisation of intangible assets                        | <b>9,332</b>                                       | 8,922                         |
| Amortisation of land use rights                          | <b>2,844</b>                                       | 2,649                         |
| Foreign exchange (gain)/loss, net                        | <b>(480)</b>                                       | 1,066                         |

**15 INCOME TAX EXPENSES**

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 Corporate Income Tax ("CIT") at an applicable rate of 25%. Both subsidiaries are qualified as high technology enterprises and entitled to a 15% preferential CIT rate for the years from 2010 to 2012.

|                     | <b>Six months ended 30 June</b> |           |
|---------------------|---------------------------------|-----------|
|                     | <b>2011</b>                     | 2010      |
|                     | <b>Unaudited</b>                | Unaudited |
|                     | <b>HK\$'000</b>                 | HK\$'000  |
| Current income tax  | <b>26,869</b>                   | 26,385    |
| Deferred income tax | <b>1,234</b>                    | (280)     |
|                     | <b>28,103</b>                   | 26,105    |

**16 DIVIDENDS**

|  | <b>Six months ended 30 June</b> |           |
|--|---------------------------------|-----------|
|  | <b>2011</b>                     | 2010      |
|  | <b>Unaudited</b>                | Unaudited |
|  | <b>HK\$'000</b>                 | HK\$'000  |
| Interim dividend, declared, of HK\$2 cents<br>(six months ended 30 June 2010: HK\$2 cents)<br>per ordinary share | <b>48,896</b>                   | 47,098    |

At a meeting held on 26 August 2011, the directors recommended the payment of an interim dividend of HK\$2 cents per ordinary share, totaling HK\$48,896,000 in respect of the six months ended 30 June 2011. 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 2011.

**17 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately HK\$135,010,000 (six months ended 30 June 2010: HK\$140,278,000) by the weighted average number of 2,447,232,000 (six months ended 30 June 2010: 2,220,068,000) 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. Since the Company has no category of dilutive potential ordinary shares at 30 June 2011, the diluted earnings per share is the same as basic earnings per share. As at 30 June 2010, the Company has outstanding share options that will dilute the potential ordinary shares. 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.

|  | <b>Six months ended 30 June</b> |           |
|--|---------------------------------|-----------|
|  | <b>2011</b>                     | 2010      |
|  | <b>Unaudited</b>                | Unaudited |
|  | <b>HK\$'000</b>                 | HK\$'000  |
| Profit used to determine diluted earnings per share  | <b>135,010</b>                  | 140,278   |
| Weighted average number of ordinary shares in issue (thousands)                                | <b>2,447,232</b>                | 2,220,068 |
| Adjustment for share options (thousands)   | –                               | 66,047    |
| Weighted average number of ordinary shares for diluted earnings per share (thousands)          | <b>2,447,232</b>                | 2,286,115 |
| Diluted earnings per share as reflected on the comprehensive income statement (HK\$ per share) | <b>0.0552</b>                   | 0.0614    |

**18 RELATED-PARTY TRANSACTIONS AND BALANCES**

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

- (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 26.25% interest in the Company as at 30 June 2011 |
| 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   |

**18 RELATED-PARTY TRANSACTIONS AND BALANCES** *(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      |                               |
|--|------------------------|-------------------------------|-------------------------------|
|  |                        | 2011<br>Unaudited<br>HK\$'000 | 2010<br>Unaudited<br>HK\$'000 |
| Purchasing of raw materials and packaging materials from | Rejoy Packaging        | 1,140                         | –                             |
| Sales of finished goods to                               | Rejoy Medicine         | 5,446                         | 3,690                         |
| Provision of utilities from                              | Xi'an Pharmacy Factory | –                             | 20,205                        |
| Payment of administrative costs to                       | Xi'an Pharmacy Factory | –                             | 1,711                         |
|  | Rejoy Packaging        | 71                            | –                             |
|  |                        | 71                            | 1,711                         |

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.

**18 RELATED-PARTY TRANSACTIONS AND BALANCES** *(Continued)*

**(c) Key management compensation**

|                    | <b>Six months ended 30 June</b> |                 |
|--------------------|---------------------------------|-----------------|
|                    | <b>2011</b>                     | 2010            |
|                    | <b>Unaudited</b>                | Unaudited       |
|                    | <b>HK\$'000</b>                 | <b>HK\$'000</b> |
| Salaries and wages | <b>5,076</b>                    | 4,543           |

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

|  | <b>30 June</b>   | 31 December     |
|--|------------------|-----------------|
|  | <b>2011</b>      | 2010            |
|  | <b>Unaudited</b> | Audited         |
|  | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Amounts due from related parties included in trade receivables |                  |                 |
| – Rejoy Medicine   | 6,990            | 6,636           |
| Amounts due from related parties included in other receivables |                  |                 |
| – Xi'an Pharmacy Factory                                       | –                | 11,418          |
| – Rejoy Packaging  | 94               | 12              |
|  | <b>94</b>        | 11,430          |
| Amounts due to related parties included in trade payables      |                  |                 |
| – Rejoy Packaging  | 316              | –               |

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:

|                                 | <b>30 June<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|---------------------------------|--|--|
| – Property, plant and equipment | <b>61,731</b>                                      | 49,055                                     |

(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<br/>2011<br/>Unaudited<br/>HK\$'000</b> | 31 December<br>2010<br>Audited<br>HK\$'000 |
|--|--|--|
| Not later than one year                              | <b>2,922</b>                                       | 494  |
| Later than one year and not later than<br>five years | <b>2,713</b>                                       | 1,454                                      |
| More than five years                                 | <b>7,370</b>                                       | 7,385                                      |
|  | <b>13,005</b>                                      | 9,333                                      |