

# 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

# 2012

## 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  
Mr. Bao Leyuan  
Ms. Gao Shuping

### 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

### NOMINATION COMMITTEE

Mr. Wang Yibing (*Chairman*)  
Mr. Leung Chong Shun  
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  
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 present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012.

### **1. RESULTS AND DIVIDEND DISTRIBUTION**

The overall economic environment for the pharmaceutical industry in the PRC remained relatively difficult since this year. Further to the continuance of unfavorable factors such as inflating raw and auxiliary material prices and increasing labor costs, the Group's operation was doubly impacted by the State policies and market competition, and the gross profit margin remained low. Coupled with the mandatory implementation of the new GMP, the Company has to undergo works for upgrade and reform, which will increase the operating costs of the Company. In face of the market environment, the Company will exert itself to leverage on its own advantages and assume initiative of development to achieve growth of operating results amidst adversity.

During the first half of the year, the Group's revenue from principle businesses amounted to HK\$1,223,626,000, representing a year-to-year increase of 12.4%. Of which, HK\$558,184,000 was contributed by Xi'an Lijun Pharmaceutical, representing a year-to-year decrease of 6.6%, and HK\$665,442,000 was contributed by Shijiazhuang No. 4 Pharma, representing a year-to-year increase of 35.4%. During the first half of the year, the Group achieved a net profit of HK\$148,860,000, representing an increase of 10.3% as compared to the same period last year.

The Board recommended the payment of an interim dividend of HK\$0.02 per share, amounting to HK\$48,832,000 in total. Also, the Board proposed bonus issue of shares on the basis of one bonus share for every five existing shares to shareholders, subject to approval by the shareholders at the extraordinary general meeting ("EGM").

## 2. REVIEW OF OPERATING RESULTS

### (1) Product marketing

#### 1. *Continual growth in sales and transformation and upgrade of intravenous infusion solution products*

The production lines that completed expansion last year have all commenced operation in March this year, fueling a significant increase in the production and sales volumes of intravenous infusion solution products of the Company. During the first half of the year, sales of intravenous infusion solution products amounted to HK\$602,932,000, representing a growth of 38.8% as compared to the same period last year, of which sales of non-PVC soft bag and PP plastic bottle products increased by 60.3% and 25.8% as compared to the same period last year, continuing the rapid growth momentum over the past years.

While upholding the mid to high-end positioning in the domestic market for the key infusion solution products, the Group has expedited the pace of “going overseas” through speeding up registration processes overseas and proactively participating in the competition on the international market. Currently, the Group has completed registration for 20 infusion solution products under 42 specifications in 13 countries, further expanding its channels and markets for infusion solution export.

#### 2. *Sales of antibiotic products below expectation as impacted by the “double-restriction” policy of the State*

Sales of antibiotics products of the Company were under increasing pressure as impacted by the “double-restriction” policy of the State in price and quantity. Despite the Company’s proactive adoption of a series of measures centered around “maintaining price, capturing distribution, enhancing end-use and sustaining profit”, the downward momentum in the sales of antibiotics failed to be reversed. During the first half of the year, sales of antibiotics amounted to HK\$315,822,000, representing a drop of 8.0% as compared to the same period last year. Of which, HK\$181,775,000

was contributed by Lijunsha, representing a decrease of 5.2% as compared to the same period last year, and HK\$57,040,000 was contributed by Paiqi series, representing a decrease of 10.4% as compared to the same period last year. Sales of other antibiotics amounted to HK\$77,007,000, representing a decrease of 12.5% as compared to the same period last year.

**3. *Stable sales of key preparation products and general medicines***

Affected by the “toxic capsule” incident of other companies, Dobesilate recorded a relatively significant decline in sales, and recorded a sales of HK\$35,615,000 during the first half of the year, representing a decrease of 23.2% as compared to the same period last year. Due to restricted sale under prescription, Lixiding recorded sales of HK\$17,689,000 for the first half of the year, representing a decrease of 2.3% as compared to the same period last year. Haogan, Lijungai, Weikoujia, Kehao and other new OTC products upheld high-speed growth. During the first half of the year, OTC products achieved total sales of HK\$13,500,000, representing a year-to-year increase of 44.1%. Overall, sales of non-antibiotics finished products amounted to HK\$188,708,000 for the first half of the year, representing a drop of 5.9% as compared to the same period last year.

**(2) *Progress in research and development of new products and platform construction***

During the first half of the year, “Technology Re-engineering on Erythromycin Ethylsuccinate Crystallization”, a project of State’s New Key Drug Project of Twelfth Five-Year” of Xi’an Lijun Pharmaceutical was kicked off; Compound Dextral Ibuprofen Sustained-release Double-layered Tablet, Type1 New Drug for treating trachea inflammation, and MeN061016-1, Type 1.1 New Drug for treating vascular dementia have completed the application of international PCT patent, of which Type 1 New Drug Compound Dextral Ibuprofen Sustained-release Double-layered Tablet has completed onsite preclinical trial research and development assessment and clinical trial application. In particular, the production permits of Edaravone raw materials and injection, and the new drug certificates and production

permits for Nalmefene Hydrochloride raw materials and injection, as well as the production permits and health food permits for Lingzhihong Capsules were obtained. All these will positively enhance the Company's sales at the next phase.

During the first half of the year, Shijiazhuang No. 4 Pharma has obtained 34 State's product registration approvals for change of technology and packaging, and applied for 8 invention and utility patents including PP flip-off cap for plastic infusion solution container and Cefuroxime Axetil Tablet and its preparation method. To enhance the research and development of core technologies and products and the result transformation, and to deepen the cooperation amongst production, academics and research, a joint research centre, test laboratory and post-graduate training base were set up with Tianjin University and Education Bureau, in the effort of focusing on the coordination between talent training, project research and development and result transformation. The large volume injection engineering technological centre has been included in the construction plan of Department of Science and Technology of Hebei Province.

**(3) Systematic progression of key construction projects**

Having integrated its enterprise development strategies with the State's requirements on injection manufacturers according to the new GMP, Shijiazhuang No. 4 Pharma has proactively implemented the modern preparation project, a key construction project of Hebei Province, and has achieved in obtaining the new GMP certification and fully commenced operation in early 2012. At the same time, it has mastered an international vision in introducing new technologies, new techniques and new equipment that fulfill the certification standards of the European Union, bringing about an all-round enhancement in the quality and production capacity of infusion solutions, as well as the actualization of core advantages in terms of quality, technologies and costs. Shijiazhuang No. 4 Pharma was the first in Hebei Province to obtain overall GMP certification, leading its counterparts in the industry by at least half a year, and in turn securing time edges in market exploration. Its leadership position in the industry was further consolidated as its scale and competitiveness were further enhanced.

With respect to the target fulfillment, capacity expansion and reformation project of Xi'an Lijun Pharmaceutical, repeated demonstration has been conducted to confirm various key works including comparison of old and new GMP, selection of design institute, planning and layout of east factory zone, establishment of separate production line for hormone type products, and relocation of power distribution station. After taking into account different factors, it has been decided that liquid injection, freeze-dried powder injection, tablets and power will be included. Each of these is currently under expedited progress.

### 3. SECOND HALF YEAR OUTLOOK

Looking ahead into the second half of the year, there will be a lack of obvious improvement in the operating environment for the pharmaceutical industry in the PRC, especially for the antibiotics business that will remain under the strong impact of the "price and quantity restriction" policy. The Company will look to leverage on its own advantages in scale and branding to further optimize its product structure, to ride on the opportunity of market adjustments, to change the way of development, to expand and diversify the market of the products, and to strive for faster and better growth of both sales volume and profit.

#### (1) High prioritization of product marketing and sales

##### 1. ***Increasing the weight of sales of advantageous intravenous infusion solution products for substantial growth of sales volume***

Integrating changes in the market and tender work situations, we will closely knit the advantageous intravenous infusion solution products and targeted markets to augment the sales expansion of single-outlet, double-outlet and double-valve, irrigating solution and dialysis solution soft-bag infusion solution and plastic bottles with a special focus on therapeutic infusion solutions of Amino Acid, Mannitol, Ambroxol, Hydroxyethyl Starch and Ozagrel with sales expansion. We will strive to achieve the sales target of 700,000,000 bottles (bags) of infusion solutions and realize new milestones in the sales of key products.

Simultaneously, we will strictly implement the strategy of “going overseas” to continue enlarging the sales in the South East Asia and Africa markets and effort for new breakthroughs in exports and processing sales.

**2. *Striving for stable sales of Lijunsha and other antibiotics products***

Facing the most stringent restriction order for antibiotics in history, the Company has already implemented initial proactive responsive measures. Firstly, we have in principal tightened and halted large discounts and incentives related to commercial procurements in order to raise the market price of Lijunsha. Secondly, we have highlighted and tangibly secured tenders for Lijunsha in order to consolidate our market share. Thirdly, we have commenced a number of “price-securing” measures. Fourthly, we have stepped up solely-commercial distribution of Lijunsha in order to consolidate our market share. Fifthly, we have specially accentuated the end-use promotion efforts for Lijunsha, with a focus on the incentive promotion for end-use procurements. These are paralleled by sales expansion and increase efforts for Lijunsha granules and capsules.

Apart from consolidating and increasing the sales of freeze-dried powder injection of Paiqi series of products, we will continue striving for sales volume stimulation of disperse tablets, capsules and dry mixed suspensions of the Paiqi oral intake series through leveraging on the branding effect. On the other hand, further focus on sales of Limaixian at drugstores will be mounted aside from efforts to explore the end-use markets of hospitals, clinics and community clinics.

**3. *Augmenting the sales of advantageous featured categories and striving for growth in the sales of general medicines***

For Dobesilate and Lixiding, we will enlarge their respective force, strengthen promotion at hospitals, and emphasize direct negotiation and supply related to drugstore end-use, with the target of sales rebound for the second half of the year.

We will persist in restructuring efforts for the general medicines, promoting the sales of high margin products, emphasizing tender work and sales growth for tender winning products and expansion of end-use network, which will in turn assure sustained sales and profit growth. In respect of foreign trade of bulk pharmaceuticals, consolidation of existing market shares will be paralleled by efforts to boost the export of advantageous categories of preparations.

**4. *Ensuring high-speed growth in featured OTC products***

Strategic planning for sales of featured OTC products must be completed in the second half of the year. While product management will be adjusted and selected, provincial supervisors will be well-equipped with strategically established end-use teams. At the same time, we will focus on the two key targets of “promotion and market distribution” to ensure high-speed growth for featured OTC products, and to build a solid foundation for higher market distribution next year.

**(2) Expedited new product research and development and approval of applications**

During the second half of the year, clinical application of Type 1 new drug Compound Dexibuprofen Sustained-release Double-layer Tablet of Xi’an Lijun Pharmaceutical will be completed, whereas technology evaluation of Compound Metformin Hydrochloride Tablet will be proactively followed. In accordance with the principle of scientific development of “market-orientation, dynamic development, aggression basis, combination of

research and imitation”, Xi’an Lijun Pharmaceutical is currently assessing each of our projects under research to ultimately implement adjustments to the research and development of new products.

Shijiazhuang No. 4 Pharma will strive to obtain the permit for the packaging materials of Convertible Vertical PP Infusion Bag with independent intellectual property, and the production permits for 2000ml Compound Electrolyte Irrigation Solution and 100ml Sterilized Injection Liquid. We will also focus on the application for add-in production permit of glucose injection solution and hydrochloride injection solution, and the change in packaging materials for xantinol nicotinate and sodium chloride injection solution, and buflomedil hydrochloride injection solution. Also, in response to enterprise development and changes in market demand, we will commit in the application for the raw materials of Type 6 chemical medicine Hydroxyethyl Starch 200, and the application for clinical permits for Type 6 chemical medicine Gliclazide Slow-Release Tablets, Type 6 chemical medicine Azithromycin Granule and Type 6 chemical medicine Cefuroxime Axetil Tablets, and keep a proper reserve of bulk pharmaceuticals and new oral preparation products.

**(3) Acceleration of standardization, capacity expansion and reformation projects**

During the second half of the year, Shijiazhuang No. 4 Pharma will fully commence the provincial key project of Relocation and Upgrade of No. 4 Pharma Headquarters by establishing a specialized department to enhance the high-starting point, high-standard and high-efficiency implementation of the project, with the aim to strive for establishment and certification of phase one three-in-one PP new ampule preparation production line and a large volume injection production with an annual production capacity of 800,000,000 ampules (bags), as well as an auxiliary 3D logistics warehouse by the end of 2013. Moreover, we will speed up the construction of the new dedicated production line for 100ml and 500ml infusion solution and strive for the successful certification and commencement of production

in the first quarter of 2013, in order to effectively respond to market and policy changes, secure the leading edges in terms of the production volume, quality and profitability of infusion solution.

Coherent with the centralized planning of the Company, Xi'an Lijun Pharmaceutical will complete emptying and demolishing of the old factories in the construction site and the relocation of power piping in the second half of the year. Apart from completing the overall planning of east factory zone and the technical solution for liquid injection and freeze-dried powder injection, it will also commence construction and upgrade, standardization and reform works with special attention to the quality and progress of the works, in order to facilitate completion of the works by next year.

In conclusion, facing a tough market, the Company will adopt proactive responses to continuously enhance the operation and management standard, heighten the operating quality and economic efficiency, and to generate more fruitful return for the investors. We are highly confident in the future development of the Company.

**Wu Qin**

**Chairman of Lijun International Pharmaceutical (Holding) Co., Ltd.**

Hong Kong, 21 August 2012

## MANAGEMENT DISCUSSION AND ANALYSIS

### SALES

The Group's total sales increased from HK\$1,088,903,000 for the corresponding period last year by 12.4% to HK\$1,223,626,000 for the six months ended 30 June 2012.

	For the six months ended 30 June				
	2012		2011		Change %
	Sales	Percentage of sales	Sales	Percentage of sales	
HK\$'000	%	HK\$'000	%		
Intravenous Infusion Solution	<b>665,442</b>	<b>54.4</b>	491,486	45.2	35.4
(Including: PP Plastic Bottle Infusion Solution	<b>224,599</b>	<b>18.4</b>	178,495	16.4	25.8
Non-PVC Soft Bag Infusion Solution)	<b>264,404</b>	<b>21.6</b>	164,895	15.1	60.3
Antibiotics	<b>315,822</b>	<b>25.8</b>	343,293	31.5	(8.0)
(Including: Lijunsha Paiqi)	<b>181,775</b>	<b>14.9</b>	191,653	17.6	(5.2)
	<b>57,040</b>	<b>4.7</b>	63,655	5.8	(10.4)
Non-antibiotics finished medicines	<b>188,708</b>	<b>15.4</b>	200,641	18.4	(5.9)
(Including: Dobesilate Lixiding)	<b>35,615</b>	<b>2.9</b>	46,393	4.3	(23.2)
	<b>17,689</b>	<b>1.4</b>	18,103	1.7	(2.3)
Sales of bulk pharmaceuticals	<b>53,654</b>	<b>4.4</b>	53,483	4.9	0.3
<b>Group's total sales</b>	<b>1,223,626</b>	<b>100</b>	1,088,903	100	12.4

### **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 2012 was HK\$665,442,000 (30 June 2011: HK\$491,486,000), in which sales of intravenous infusion solution products accounted for HK\$602,932,000 (30 June 2011: HK\$434,363,000).

Among the intravenous infusion solution products, sales of PP Plastic Bottle Infusion Solution was HK\$224,599,000, an increase of 25.8% as compared with corresponding period of last year and accounted for 37.2% of total sales of intravenous infusion solution; sales of Non-PVC Soft Bag Infusion Solution was HK\$264,404,000, an increase of 60.3% as compared with corresponding period of last year and accounted for 43.9% of total sales of intravenous infusion solution; sales of Glass Bottle Infusion Solution was HK\$113,929,000, an increase of 25.2% as compared with corresponding period of last year and accounted for 18.9% of total sales of intravenous infusion solution. The increase in sales was mainly attributable to expansion in production capacity.

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

### **ANTIBIOTICS**

For the six months ended 30 June 2012, sales of Lijunsha decreased by 5.2% to HK\$181,775,000 (30 June 2011: HK\$191,653,000), sales of Paiqi decreased by 10.4% to HK\$57,040,000 (30 June 2011: HK\$63,655,000) and sales of other antibiotics finished products decreased by 12.5% to HK\$77,007,000 (30 June 2011: HK\$87,985,000). Overall sales of antibiotics finished medicines decreased by 8.0% to HK\$315,822,000 (30 June 2011: HK\$343,293,000).

Reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 31.5% for the six months ended 30 June 2011 to 25.8% for the six months ended 30 June 2012, and sales proportion of Lijunsha accounted for only 14.9% of the total Group's sales for the six months ended 30 June 2012, comparing to 17.6% in the same period last year.

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

Sales of the Group's non-antibiotics finished medicines decreased by 5.9% to HK\$188,708,000 (30 June 2011: HK\$200,641,000). Among which, sales of Dobesilate decreased by 23.2% to HK\$35,615,000 (30 June 2011: HK\$46,393,000) and sales of Lixiding decreased slightly by 2.3% to HK\$17,689,000 (30 June 2011: HK\$18,103,000).

### **BULK PHARMACEUTICALS**

Export sales of bulk pharmaceuticals for the six months ended 30 June 2012 amounted to HK\$53,654,000, increased by 0.3% as compared to the corresponding period last year of HK\$53,483,000.

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

Cost of goods sold increased by 14.6% to HK\$690,717,000 for the six months ended 30 June 2012 as compared to the corresponding period last year of HK\$602,624,000. The cost of direct materials, direct labour and other costs represented approximately 72%, 11% and 17% of the total cost of goods sold respectively, while their comparative percentage for 2011 were 71%, 12% and 17% respectively.

For the six months ended 30 June 2012, the Group recorded a total gross profit of HK\$532,909,000. Overall gross profit margin had decreased by 1.1 percentage point to 43.6% for the six months ended 30 June 2012, from 44.7% for the corresponding period last year. The decrease of gross profit margin was due to the factors that include price reduction of antibiotics and non-antibiotics finished products and cost increase (including raw and auxiliary materials, labour and utility charges).

### **SELLING AND MARKETING EXPENSES**

For the six months ended 30 June 2012, selling and marketing expenses amounted to approximately HK\$206,324,000 (30 June 2011: HK\$211,267,000), which mainly consisted of advertising expenses of approximately HK\$32,934,000 (30 June 2011: HK\$28,792,000), sales commission of approximately HK\$66,791,000 (30 June 2011: HK\$88,892,000), salary expenses of sales and marketing staff of approximately HK\$21,459,000 (30 June 2011: HK\$31,476,000) and transportation cost of approximately HK\$44,856,000 (30 June 2011: HK\$28,529,000).

Selling and marketing expenses decreased by 2.3% for the six months ended 30 June 2012 as compared with that of the corresponding period last year mainly due to the Group's decreased sales of antibiotics and non-antibiotic finished products and better cost control.

### **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the six months ended 30 June 2012 was HK\$138,134,000 (30 June 2011: HK\$101,855,000) which mainly comprised of salaries expenses for the administrative staff of approximately HK\$52,545,000 (30 June 2011: HK\$42,994,000), depreciation and amortisation of approximately HK\$26,269,000 (30 June 2011: HK\$25,664,000) and an expense for the grant of share options of approximately HK\$15,530,000 (30 June 2011: Nil).

The increase of 35.6% in general and administrative expense as compared to that of the corresponding period last year was mainly attributable to expansion of the Group's operations, increase in salaries expenses for the administrative staff and an expense of HK\$15,530,000 for the grant of share options to the directors.

### **OPERATING PROFIT**

For the six months ended 30 June 2012, the Group's operating profit amounted to HK\$196,871,000 representing an increase of 13.8% as compared to that of the corresponding period last year with operating profit margin (defined as operating profit divided by total sales) increased from 15.9% to 16.1%.

### **FINANCE COSTS**

The Group's finance costs for the period amounted to HK\$16,043,000 (30 June 2011: HK\$11,534,000), of which HK\$13,666,000 (30 June 2011: HK\$11,172,000) related to bank borrowings. The increase in finance costs as compared to that of the corresponding period last year was due to the increase in bank loan and interest rate.

### **INCOME TAX EXPENSE**

Both Xi'an Lijun 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 2012 to 2014. For the six months ended 30 June 2012, the overall income tax expense amounted HK\$32,724,000 (30 June 2011: HK\$28,103,000).

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

The profit attributable to equity holders of the Company for the six months ended 30 June 2012 increased by 10.3% to HK\$148,860,000 while net profit margin (defined as profit attributable to equity holders of the Company for the period divided by total sales) decreased to 12.2% from 12.4% for the corresponding period last year.

Loss attributable to equity holders of the Company in the full year of 2011 amounting to HK\$41,401,000 with a net loss margin of 1.9%.

### **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 2012, the cash and cash equivalents aggregated to HK\$240,366,000 (31 December 2011: HK\$257,980,000), comprising HK\$4,065,000 (31 December 2011: HK\$50,688,000) of cash and cash equivalents denominated in Hong Kong dollars, HK\$234,692,000 (31 December 2011: HK\$204,418,000) in RMB and HK\$1,609,000 (31 December 2011: HK\$2,874,000) in other currencies.

As at 30 June 2012, the Group has pledged bank deposits amounting to HK\$2,656,000 (31 December 2011: HK\$4,443,000) as guarantee of payables for property, plant and equipment and bills payable.

The carrying amounts of the borrowings amounting to HK\$565,239,000 as at 30 June 2012 (31 December 2011: HK\$416,615,000), comprising HK\$117,507,000 (31 December 2011: HK\$151,412,000) of borrowings denominated in Hong Kong dollars and HK\$447,732,000 (31 December 2011: HK\$265,203,000) in RMB.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital) increased from 6.5% as at 31 December 2011 to 11.9% as at 30 June 2012.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.42 as at 31 December 2011 to 1.39 as at 30 June 2012.

### **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 2012.

### **PLEDGE OF ASSETS**

As at 30 June 2012, the net book amount of the Group's land use right of HK\$57,706,000 (31 December 2011: HK\$50,025,000), the net book amount of the Group's buildings, plant and machineries of HK\$408,329,000 (31 December 2011: HK\$246,470,000) and bank deposits of HK\$2,656,000 (31 December 2011: HK\$4,443,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payable.

### **CONTINGENT LIABILITIES**

As at 30 June 2012, the Group did not have any significant contingent liabilities.

### **INTERIM DIVIDEND**

The Directors resolved to pay on 3 October 2012 an interim dividend of HK\$0.02 per share (amounting to a total of approximately HK\$48,832,000) for the six months ended 30 June 2012 to the shareholders named in the register of members of the Company on 17 September 2012. The interim dividend represents a payout rate of 32.8% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2012.

### **PROPOSED BONUS ISSUE**

In recognition of the continual support of the shareholders, the Directors resolved to propose the bonus issue, being a bonus issue of new shares on the basis of one bonus share for every five existing shares, to shareholders whose names appear on the register of members of the Company on 28 September 2012 for approval by the shareholders at the extraordinary general meeting. An amount standing to the credit of the share premium account of the Company will be capitalised and applied in making payment in full, at par value, for the bonus shares. Upon issuance and being credited as fully paid up, the bonus shares will rank pari passu in all respects with the then existing shares. To qualify for the bonus issue, any transfer of shares must be lodged for registration by 4:30 p.m. on 25 September 2012.

### **EXCHANGE RATE**

As at 2012 and 2011, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2011	0.85093
30 June 2011	0.83162
31 December 2011	0.81070
30 June 2012	0.81522

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

Save for the purchase of 3,210,000 shares in March, April and June 2012 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 2012.

For the six months ended 30 June 2012, the Company acquired an aggregate of 3,210,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (including transaction costs) of HK\$5,519,607 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 April 2012 and 29 June 2012.

<b>Date of the purchases</b>	<b>Total number of the ordinary shares purchased</b>	<b>Highest price paid per share <i>HK\$</i></b>	<b>Lowest price paid per share <i>HK\$</i></b>	<b>Aggregate consideration <i>HK\$</i></b>
28 March 2012	620,000	1.61	1.58	993,367
29 March 2012	620,000	1.61	1.57	996,676
11 April 2012	330,000	1.60	1.56	528,898
4 June 2012	<u>1,640,000</u>	1.84	1.78	<u>3,000,666</u>
	<u>3,210,000</u>			<u>5,519,607</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.

As at 3 May 2012, the Company granted 40,000,000 share options, representing about 1.64% of the issued share capital as at the date immediately before the options were granted to directors of the Group. The exercise price was HK\$1.78. As at 30 June 2012, all of the share options granted remained outstanding.

The Directors resolved to terminate the Scheme and propose the adoption of the new share option scheme ("New Scheme") which will be valid for 10 years from the adoption date for approval by the shareholders at the extraordinary general meeting. Details of the termination of the Scheme and adoption of the New Scheme will be contained in a notice and a circular of extraordinary general meeting to be published and dispatched in due course.

## **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 2012, the Group had approximately 4,450 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 2012 was HK\$149,766,000 (30 June 2011: HK\$143,580,000).

**DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN THE SHARES**

As at 30 June 2012, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) in Appendix 10 of the Listing Rules once the Shares are listed, were as follows:

**Long positions in the shares of the Company**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
Mr. Wu Qin	Beneficial owner	35,420,000	1.45%
Mr. Qu Jiguang	Beneficial owner	20,000,000	0.82%
	Interest in a controlled corporation (Note 1)	571,500,000	23.41%

*Note:*

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 2012, 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 2012 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 2012, 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 (Note 1)	Beneficial owner	641,655,000	26.28%
CPCL (Note 2)	Beneficial owner	571,500,000	23.41%
Mr. Qu Jiguang	Beneficial owner	20,000,000	0.82%
	Interest of controlled corporation (Note 2)	571,500,000	23.41%

*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 3,085 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.

### **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 2012.

### **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 2012, 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 2012 has been reviewed by the auditor of the Company, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed and approved the Interim Financial Information for the six months ended 30 June 2012.

### **EXTRAORDINARY GENERAL MEETING**

An extraordinary general meeting of the Company will be held at 2:00 p.m., 20 September 2012 at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and a notice of extraordinary general meeting will be published and dispatched in due course.

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

To qualify for the entitlement to the interim dividend and to attend and vote at the forthcoming extraordinary general meeting, the register of members of the Company will be closed from Tuesday, 18 September 2012 to Thursday, 20 September 2012 both days inclusive (“First Book Close”), during which period, no transfer of shares will be registered.

To qualify for the entitlement to the proposed bonus issue, the register of members of the Company will be closed from Wednesday, 26 September 2012 to Friday, 28 September 2012 both days inclusive (“Second Book Close”), during which period, no transfer of shares will be registered.

All properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 17 September 2012 for the First Book Close and 4:30 p.m., Tuesday, 25 September 2012 for the Second Book Close.

On behalf of the Board

**Wu Qin**

*Chairman*

Hong Kong, 21 August 2012



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 29 to 54, 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 2012 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.

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羅兵咸永道

### SCOPE OF REVIEW

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

### CONCLUSION

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 21 August 2012

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012

(All amounts in HK\$ unless otherwise stated)

		<b>30 June 2012</b>	31 December 2011
	<i>Note</i>	<b>Unaudited HK\$'000</b>	Audited HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	7	216,313	220,433
Property, plant and equipment	7	1,453,340	1,444,819
Intangible assets	7	310,025	316,896
Deferred income tax assets		19,835	21,526
Available-for-sale financial assets		158	159
Other non-current assets		24,533	–
<b>Total non-current assets</b>		<b>2,024,204</b>	2,003,833
<b>Current assets</b>			
Inventories		394,964	342,318
Trade and bill receivables	8	870,467	704,666
Financial assets at fair value through profit or loss		7,155	2,367
Prepayments, deposits and other receivables		131,589	128,933
Pledged bank deposits		2,656	4,443
Cash and cash equivalents		240,366	257,980
<b>Total current assets</b>		<b>1,647,197</b>	1,440,707
<b>Total assets</b>		<b>3,671,401</b>	3,444,540
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	9	55,639	55,703
Reserves	10	2,338,718	2,239,974
		<b>2,394,357</b>	2,295,677
<b>Non-controlling interests</b>		<b>612</b>	616
<b>Total equity</b>		<b>2,394,969</b>	2,296,293

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012

(All amounts in HK\$ unless otherwise stated)

	Note	30 June 2012 Unaudited HK\$'000	31 December 2011 Audited HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	14	57,507	86,822
Deferred income tax liabilities		23,728	25,344
Deferred revenue		4,945	10,608
Long-term payables	12	9,338	10,548
<b>Total non-current liabilities</b>		<b>95,518</b>	133,322
<b>Current liabilities</b>			
Trade and bill payables	13	305,732	259,986
Advanced receipts from customers		14,876	17,271
Dividends payable		6,050	6,050
Accruals and other payables		324,857	393,338
Income tax payable		21,667	8,487
Borrowings	14	507,732	329,793
<b>Total current liabilities</b>		<b>1,180,914</b>	1,014,925
<b>Total liabilities</b>		<b>1,276,432</b>	1,148,247
<b>Total equity and liabilities</b>		<b>3,671,401</b>	3,444,540
<b>Net current assets</b>		<b>466,283</b>	425,782
<b>Total assets less current liabilities</b>		<b>2,490,487</b>	2,429,615

WU QIN  
DIRECTOR

QU JIGUANG  
DIRECTOR

The notes on page 35 to 54 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2012*

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

		Six months ended 30 June	
		2012	2011
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	Note		
Revenue	6	1,223,626	1,088,903
Cost of sales		(690,717)	(602,624)
<b>Gross profit</b>		<b>532,909</b>	486,279
Other gains/(losses) – net		8,420	(110)
Selling and marketing costs		(206,324)	(211,267)
General and administrative expenses		(138,134)	(101,855)
<b>Operating profit</b>	15	<b>196,871</b>	173,047
Finance income		755	1,616
Finance costs		(16,043)	(11,534)
Finance costs – net		(15,288)	(9,918)
<b>Profit before income tax</b>		<b>181,583</b>	163,129
Income tax expenses	16	(32,724)	(28,103)
<b>Profit for the period</b>		<b>148,859</b>	135,026
<b>Other comprehensive income:</b>			
Currency translation differences		(11,326)	50,697
<b>Total comprehensive income for the period</b>		<b>137,533</b>	185,723
<b>Profit attributable to:</b>			
– Equity holders of the Company		148,860	135,010
– Non-controlling interests		(1)	16
		<b>148,859</b>	135,026

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

(All amounts in HK\$ unless otherwise stated)

		Six months ended 30 June	
	Note	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
<b>Total comprehensive income attributable to:</b>			
– Equity holders of the Company		137,537	185,707
– Non-controlling interests		(4)	16
		<b>137,533</b>	185,723
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in HK\$ per share)			
– Basic	18	<b>0.0609</b>	0.0552
– Diluted	18	<b>0.0609</b>	0.0552
<b>Dividends</b>	17	<b>48,832</b>	48,896

The notes on page 35 to 54 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 2012*

*(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 2012</b>	55,703	2,239,974	2,295,677	616	2,296,293
<b>Comprehensive income</b>					
Profit for the period	–	148,860	148,860	(1)	148,859
<b>Other comprehensive income</b>					
Currency translation differences	–	(11,323)	(11,323)	(3)	(11,326)
<b>Total comprehensive income</b>	–	137,537	137,537	(4)	137,533
<b>Transactions with equity holders</b>					
Repurchase of the Company's shares (Note 10)	–	(5,520)	(5,520)	–	(5,520)
Cancellation of shares repurchased (Note 10)	(64)	62	(2)	–	(2)
Dividends paid to equity holders of the Company	–	(48,865)	(48,865)	–	(48,865)
Employee share option scheme					
— value of employee services (Note 11)	–	15,530	15,530	–	15,530
<b>Total transactions with equity holders</b>	(64)	(38,793)	(38,857)	–	(38,857)
<b>Balance at 30 June 2012</b>	55,639	2,338,718	2,394,357	612	2,394,969
<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 equity holders</b>					
Repurchase of the Company's shares	–	(6,757)	(6,757)	–	(6,757)
Cancellation of shares repurchased	(202)	195	(7)	–	(7)
Dividends paid to equity holders of the Company	–	(48,977)	(48,977)	–	(48,977)
<b>Total transactions with equity holders</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

The notes on page 35 to 54 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

(All amounts in HK\$ unless otherwise stated)

	Six months ended 30 June	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Cash flows generated from operating activities – net	45,956	92,414
Cash flows used in investing activities – net	(162,740)	(227,642)
Cash flows generated from/(used in) financing activities – net	99,977	(95,124)
Net decrease in cash and cash equivalents	(16,807)	(230,352)
Cash and cash equivalents at 1 January	257,980	598,911
Effect of foreign exchange rate changes	(807)	1,045
Cash and cash equivalents at 30 June	240,366	369,604

The notes on page 35 to 54 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 2012*

*(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 21 August 2012.

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 2012 has been prepared in accordance with Hong Kong Accounting Standard 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 2011, 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 2011, 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.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

		<b>Effective date</b>
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (Revised 2011)	Associates and joint ventures	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

The Group is yet to assess the impact of these new standards and amendments to standards.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### 4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2011.

#### 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 information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

##### 5.2 Liquidity risk

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

##### 5.3 Fair value estimation

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

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

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

**5.3 Fair value estimation** *(Continued)*

As of 30 June 2012, the Group has financial assets at fair value through profit or loss, amounted to HK\$7,155,000 (31 December 2011: HK\$2,367,000), the fair values of which were recorded during the period ended 30 June 2012 based on quoted market prices at the reporting date (level 1).

The carrying value less impairment provision of receivables and payables is 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 2012, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. Moreover, there were no significant reclassifications of financial assets.

**6 SEGMENT INFORMATION**

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

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

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

Unallocated operating loss mainly represents corporate expenses.

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

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

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

**6 SEGMENT INFORMATION** (Continued)

	Unaudited			Total HK\$'000
	Intravenous infusion solution HK\$'000	Antibiotics and others HK\$'000	Unallocated HK\$'000	
<b>Six months ended 30 June 2012</b>				
<b>Revenue</b>	665,442	558,184	–	1,223,626
<b>Operating profit/(loss) segment results</b>	165,962	57,759	(26,850)	196,871
Finance income	423	87	245	755
Finance costs	(9,534)	(6,041)	(468)	(16,043)
<b>Profit/(loss) before income tax</b>	156,851	51,805	(27,073)	181,583
Income tax expenses	(24,568)	(8,156)	–	(32,724)
<b>Profit/(loss) for the period</b>	132,283	43,649	(27,073)	148,859
<b>Six months ended 30 June 2011</b>				
<b>Revenue</b>	491,486	597,417	–	1,088,903
<b>Operating profit/(loss) 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 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

6 SEGMENT INFORMATION (Continued)

	Unaudited			
	Intravenous infusion solution <i>HK\$'000</i>	Antibiotics and others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 30 June 2012</b>				
<b>Total assets</b>	2,265,662	1,367,790	37,949	33,671,401
<b>Total liabilities</b>	869,440	406,865	127	1,276,432

	Audited			
	Intravenous infusion solution <i>HK\$'000</i>	Antibiotics and others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2011</b>				
<b>Total assets</b>	2,074,263	1,254,941	115,336	3,444,540
<b>Total liabilities</b>	814,971	319,529	13,747	1,148,247

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

	Unaudited			
	Land use rights	Property, plant and equipment	Goodwill	Other intangible assets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Six months ended</b>				
<b>30 June 2012</b>				
<b>Opening net book amount as at 1 January 2012</b>	220,433	1,444,819	248,610	68,286
Additions	–	87,831	–	3,433
Disposals	–	(8,218)	–	–
Depreciation/Amortisation	(2,906)	(63,041)	–	(9,943)
Exchange differences	(1,214)	(8,051)	–	(361)
<b>Closing net book amount as at 30 June 2012</b>	216,313	1,453,340	248,610	61,415
<b>Six months ended</b>				
<b>30 June 2011</b>				
<b>Opening net book amount 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 as at 30 June 2011</b>	217,726	1,104,327	483,126	72,228

As at 30 June 2012, the Group's land use rights and property, plant and equipment with net book amounts of HK\$57,706,000 (31 December 2011: HK\$50,025,000) and HK\$408,329,000 (31 December 2011: HK\$246,470,000) respectively were pledged as collateral for the Group's bank borrowings (Note 14).

**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 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
Within 3 months	<b>734,842</b>	627,850
4 to 6 months	<b>56,391</b>	29,746
7 to 12 months	<b>50,411</b>	34,451
1 to 2 years	<b>35,019</b>	15,380
2 to 3 years	<b>3,228</b>	3,900
More than 3 years	<b>15,566</b>	13,684
	<b>895,457</b>	725,011
Less: Provision for impairment	<b>(24,990)</b>	(20,345)
	<b>870,467</b>	704,666

**9 SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Ordinary shares HK\$'000</b>
<b>Authorised</b>		
At 30 June 2011 and 2012 (ordinary shares with par value of HK\$ 0.02 each)	<b>10,000,000</b>	200,000
<b>Issued and fully paid up</b>		
At 1 January 2012	<b>2,444,814</b>	55,703
Cancellation on repurchase of the Company's shares (Note 10(b))	<b>(3,210)</b>	(64)
At 30 June 2012 (unaudited)	<b>2,441,604</b>	55,639
At 1 January 2011	<b>2,454,904</b>	55,905
Cancellation on repurchase of the Company's shares	<b>(10,090)</b>	(202)
At 30 June 2011 (unaudited)	<b>2,444,814</b>	55,703

**10 RESERVES**

	Unaudited					
	Share premium	Capital reserve	Statutory reserves	Share-based payment reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2012</b>	1,351,525	176,819	202,447	-	509,183	2,239,974
Repurchase of the Company's shares (a)	-	-	-	-	(5,520)	(5,520)
Cancellation of shares repurchased (b)	(5,458)	-	-	-	5,520	62
Dividends paid to equity holders of the Company	-	-	-	-	(48,865)	(48,865)
Profit for the period	-	-	-	-	148,860	148,860
Employee share option scheme — value of employee services (Note 11)	-	-	-	15,530	-	15,530
Currency translation differences	-	-	-	-	(11,323)	(11,323)
<b>At 30 June 2012</b>	1,346,067	176,819	202,447	15,530	597,855	2,338,718
<b>At 1 January 2011</b>	1,371,873	176,670	173,241	-	577,430	2,299,214
Repurchase of the Company's shares	-	-	-	-	(6,757)	(6,757)
Cancellation of shares repurchased	(20,348)	-	-	-	20,543	195
Dividends paid to equity holders of the Company	-	-	-	-	(48,977)	(48,977)
Profit for the period	-	-	-	-	135,010	135,010
Currency translation differences	-	-	-	-	50,697	50,697
<b>At 30 June 2011</b>	1,351,525	176,670	173,241	-	727,946	2,429,382

(a) During the period from 28 March 2012 to 4 June 2012, the Company repurchased 3,210,000 ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK\$5,520,000, which had been deducted from retained earnings within shareholders' equity.

(b) On 30 April 2012 and 29 June 2012, the Company cancelled 1,570,000 and 1,640,000 ordinary shares repurchased respectively. Directly attributable expenses of approximately HK\$2,000 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 2,444,814,000 to 2,441,604,000 (Note 9).

**11 SHARE-BASED PAYMENTS**

As approved by the board of directors' meeting on 3 May 2012, 40,000,000 share options were granted to two directors at an exercise price of HK\$1.78 per share, which represents the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the share for 5 trading days immediately preceding the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	<b>Average exercise price</b> <i>(HK\$ per share)</i>	<b>Number of Options</b> <i>(thousands)</i>
At 1 January 2012	–	–
Granted	1.78	40,000
At 30 June 2012	1.78	40,000

Details of share options outstanding at 30 June 2012 are as follows:

<b>Exercisable from</b>	<b>Expiry date</b>	<b>Exercise price</b> <i>(HK\$ per share)</i>	<b>Number of Options</b> <i>(thousands)</i>
3 May 2012	2 May 2015	1.78	40,000

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

**11 SHARE-BASED PAYMENTS** *(Continued)*

The attributable amount charged to the condensed consolidated statement of comprehensive income for the six months ended 30 June 2012 was approximately HK\$15,530,000.

**12 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 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
Within 1 year	<b>88</b>	673
Between 1 to 2 years	<b>79</b>	561
Between 2 to 5 years	<b>643</b>	1,323
More than 5 years	<b>8,616</b>	8,664
	<b>9,426</b>	11,221
Less: Current portion included in current liabilities	<b>(88)</b>	(673)
	<b>9,338</b>	10,548

**13 TRADE AND BILL PAYABLES**

Ageing analysis of trade and bill payables is as follows:

	<b>30 June 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
Within 3 months	<b>234,106</b>	195,371
4 to 6 months	<b>42,318</b>	25,817
7 to 12 months	<b>16,854</b>	23,163
1 to 3 years	<b>11,103</b>	14,474
More than 3 years	<b>1,351</b>	1,161
	<b>305,732</b>	259,986

**14 BORROWINGS**

	<b>30 June 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
<b>Non-current</b>		
Non-current portion of long-term bank borrowings	<b>57,507</b>	86,822
<b>Current</b>		
Current portion of long-term bank borrowings	<b>60,000</b>	76,760
Short-term bank borrowings	<b>447,732</b>	253,033
	<b>507,732</b>	329,793
<b>Total borrowings</b>	<b>565,239</b>	416,615
Representing:		
Unsecured	<b>239,199</b>	129,683
Secured (i)	<b>326,040</b>	264,842
Guaranteed (ii)	–	22,090
	<b>565,239</b>	416,615

- (i) As at 30 June 2012, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK\$57,706,000, and the Group's buildings, plant and machinery with a net book amount of HK\$408,329,000. As at 31 December 2011, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK\$50,025,000, and the Group's buildings, plant and machinery with a net book amount of HK\$246,470,000.
- (ii) As at 31 December 2011, 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 2012 were HK\$13,666,000 (six months ended 30 June 2011: HK\$11,172,000).

**14 BORROWINGS** *(Continued)*

Movements in borrowings were analysed as follows:

	<b>Unaudited HK\$'000</b>
<b>Six months ended 30 June 2012</b>	
As at 1 January 2012	416,615
Proceeds from borrowings	338,270
Repayments of borrowings	(188,349)
Exchange differences	(1,297)
<b>As at 30 June 2012</b>	<b>565,239</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>

**15 OPERATING PROFIT**

The following items have been charged/(credited) to the operating profit during the six months ended 30 June 2012 and 2011:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>Unaudited HK\$'000</b>	Unaudited HK\$'000
Gain on disposal of property, plant and equipment	<b>(998)</b>	(142)
Depreciation of property, plant and equipment	<b>63,041</b>	45,404
Reversal of provision for impairment of inventories	<b>(442)</b>	(580)
Provision for/(Reversal of) impairment of receivables	<b>4,783</b>	(3,384)
Amortisation of intangible assets	<b>9,943</b>	9,332
Amortisation of land use rights	<b>2,906</b>	2,844
Foreign exchange loss/(gain), net	<b>1,140</b>	(480)

**16 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., Shijiazhuang No. 4 Pharmaceutical Co., Ltd., Hebei Jinmen Pharmaceutical Import & Export Co., Ltd., Hebei Guolong Pharmaceutical Co., Ltd., Hebei Guangxiang Pharmaceutical Technology Co., Ltd., and Hebei Guangxiang Logistics Co., Ltd., which are all subsidiaries of the Company established and operate in the Mainland China, are subject to Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No. 4 Pharmaceutical Co., Ltd. are qualified as high technology enterprises and entitled to a 15% preferential CIT rate for the years from 2012 to 2014.

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Current income tax	<b>32,633</b>	26,869
Deferred income tax	<b>91</b>	1,234
	<b>32,724</b>	28,103

**17 DIVIDENDS**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Interim dividend, proposed, of HK\$2 cents (six months ended 30 June 2011: HK\$2 cents) per ordinary share	<b>48,832</b>	48,896

At a meeting held on 21 August 2012, the directors recommended the payment of an interim dividend of HK\$2 cents per ordinary share, totalling HK\$48,832,000 in respect of the six months ended 30 June 2012. 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 2012.

In addition, the directors recommended bonus shares to be made on the basis of one bonus share for every five existing shares held by the shareholders of the Company whose names appear on its register of members on 28 September 2012 and to be paid through capitalisation of the Company's share premium account, subject to the approval of the shareholders of the Company at the extraordinary general meeting. Bonus shares are not entitled to the interim dividend.

**18 EARNINGS PER SHARE**

**(a) Basic**

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

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Profit attributable to equity holders of the Company	<b>148,860</b>	135,010
Weighted average number of ordinary shares in issue (thousands)	<b>2,444,279</b>	2,447,232
Basic earnings per share (HK\$ per share)	<b>0.0609</b>	0.0552

**18 EARNINGS PER SHARE (Continued)**

**(b) Diluted**

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

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Profit used to determine diluted earnings per share	<b>148,860</b>	135,010
Weighted average number of ordinary shares in issue (thousands)	<b>2,444,279</b>	2,447,232
Adjustment for share options (thousands)	<b>916</b>	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>2,445,195</b>	2,447,232
Diluted earnings per share (HK\$ per share)	<b>0.0609</b>	0.0552

**19 RELATED-PARTY TRANSACTIONS**

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

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

<b>Name</b>	<b>Relationship</b>
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 26.25% interest in the Company as at 30 June 2012
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group

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

- (b) Except for related party transactions disclosed elsewhere in this condensed consolidated 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	
		2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Purchasing of raw materials and packaging materials from	– Rejoy Packaging	2,359	1,140
Sales of finished goods to	– Rejoy Medicine	1,485	5,446
Provision of utilities to	– Rejoy Packaging	111	–
Payment of administrative costs to	– Rejoy Packaging	–	71

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

(c) **Key management compensation**

	Six months ended 30 June	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Salaries and wages	5,470	5,076
Share-based compensation in respect of share options	15,530	–
	21,000	5,076

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

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

	<b>30 June 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
Amounts due from related parties included in trade receivables		
– Rejoy Medicine	<b>7,025</b>	6,788
Amounts due from related parties included in other receivables		
– Rejoy Packaging	<b>16</b>	17
– Rejoy Group	<b>31</b>	271
	<b>47</b>	288
Amounts due to related parties included in trade payables		
– Rejoy Group	–	797
– Rejoy Packaging	<b>167</b>	244
	<b>167</b>	1,041

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

20 COMMITMENTS

(a) Capital commitments

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

	<b>30 June 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
Property, plant and equipment	<b>15,303</b>	5,935

(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 2012 Unaudited HK\$'000</b>	31 December 2011 Audited HK\$'000
Not later than one year	<b>1,759</b>	2,882
Later than one year and not later than five years	<b>1,237</b>	1,730
More than five years	<b>6,129</b>	7,751
	<b>9,125</b>	12,363

21 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the interim dividend and bonus shares proposed are described in Note 17.