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

2007

CONTENTS

CORPORATE INFORMATION

STOCK CODE
2005

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

NON-EXECUTIVE DIRECTOR
Mr. Liu Zhiyong

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Qu Jiguang
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY
Mr. Lam Yiu Por

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
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. Wu Zhihong
Ms. Sun Xinglai

AUDIT COMMITTEE
Mr. Chow Kwok Wai *(Chairman)*
Mr. Qu Jiguang
Mr. Leung Chong Shun

REMUNERATION COMMITTEE
Mr. Leung Chong Shun *(Chairman)*
Mr. Qu Jiguang
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fund Services (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
Shops 1806-07, 18th 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) Limited
China Merchants Bank
China Minsheng Banking Corp., Ltd.
CITIC Industrial Bank
Hang Seng Bank

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW
Dibb Lupton Alsop

AUDITORS
PricewaterhouseCoopers

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 2007.

1. RESULTS AND DIVIDEND PAYMENT

During the period, the sales income amounted to RMB451,976,000, representing an increase of 1% as compared to the corresponding period last year. Although Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") began to pay the Enterprise Income Tax with a 50% reduction this year, profit attributable to shareholders of the Company increased by 24.1% to approximately RMB51,655,000 as compared to the corresponding period last year. On 29 August 2007, each share of the Company with par value of HK$0.1 was subdivided into 5 shares with par value of HK$0.02 each. Upon the completion date of the share subdivision, total issued number of shares of the Company was 2,007,400,670 (31 December 2006: 290,500,000). The Board resolved the payment of interim dividend of approximately HK$20,074,000 in aggregate, representing a dividend per share of HK$0.01.

2. BUSINESS REVIEW

The business operation of the Company remained stable with growth during the period. With the State's reformation to enlarge the community and rural medical systems, the overall pharmaceutical industry were starting to revive. The sale momentum of the major branded medical products and low-priced general medicines was encouraging.

(1) The market of antibiotics products reflected stable development

Sales of our core product, Lijunsha, was RMB219,901,000 during the period, representing a growth of 3.7% as compared to the corresponding period last year. The sales of Paiqi product amounted to RMB46,071,000, representing a growth of 3.3%. Affected by a number of factors such as price reduction, the sales of other antibiotics products including Cephalosporins products decreased by 16.4% as compared to the corresponding period last year. The overall sales of antibiotics products still accounted for 71.9% of the total sales of the Company.

(2) Non-antibiotics finished medicine products showed rapid growth

With the advantages of Lijun's brand and quality, the non-antibiotics finished medicine products of the Company remained on the track of agreeable growth against the background of the expanding rural and city community markets. The total sales of non-antibiotics finished medicine products amounted to RMB86,604,000, representing an increase of 11.3% as compared to the corresponding period last year.

(3) The Company recorded material progress in acquisitions and mergers

On 29 June 2007, the Company successfully acquired 100% equity interest of New Orient Investments Limited, and in turn obtained the entire assets and businesses of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("No. 4 Pharm"). The completion of such acquisition speeded up the broadening of the capital scale, business scale and profit scale, which further enhanced the development of the Company. In the meantime, it removed the reliance of the Company's results upon the sales of antibiotics, the situation of the results' reliance on Xi'an Lijun since the listing has been changed, which was of significant importance to the Company's long-term development. The results of No. 4 Pharm were fully accounted for in the consolidated financial statements of the Group starting from 1 July 2007.

3. OUTLOOK

(1) The sales and scale of Lijunsha being the leading product and the sales of general medicines will continue their stable development

Following the deepening of the State's medical system reform, the entire pharmaceutical industry is gradually taking off from the low point, heading for an accelerated growth. The Company will continue to take advantage of its brand recognition and sales network in order to expand the rural and city community markets, maintain the leading position in Macrolide antibiotics and increase the sales of a number of general medical products which target on a large range of diseases while delivering good curative effect.

(2) The pharmaceutical products of fluid infusion will realize significant contribution

The fluid infusion market is now transiting from glass bottle packing to plastic bottle and soft bag packing. As plastic bottle and soft bag packing ensures product quality and enhances transportation, it accounts for more than 90% market share in the international market, whereas in China, infusion products in glass bottle packing have long been the mainstream with the production volume of plastic bottle and soft bag packing accounting for less than 10%. With rising awareness of medicine consumption safety, plastic bottle and soft bag packing infusion products are replacing glass bottle packing rapidly in recent years. It is expected that such trend will persist. The Company will leverage on its edge in its production, technology, quality and scale of plastic bottle and soft bag packed infusion fluid, grasping the opportunity to expand the market share in this sector.

While the Company establishes an advantage of scale in respect of basic infusion products, its curative infusion products in the cerebro-cardiovascular, antibiotics, antifungal and synthetic antiseptics aspects also form a diversified and comprehensive production and operational capability. Among them, new products such as Fluconazole and Sodium Chloride Injection, Gatifloxacin Lactate and Sodium Chloride Injection as well as Sodium Ozagrel and Sodium Chloride Injection with good curative results are well positioned to enjoy obvious advantages in market expansion and good development potentials, which in turn facilitate a branding effect and market recognition and the positioning of these products as the leading products among similar types of medicines.

Being the Company's new business, it is expected that the sales income of the pharmaceutical products of fluid infusion will account for over 40% of the Company's total sales amount.

(3) Launch of OTC pharmaceutical products and healthcare products on the market gradually

OTC pharmaceutical products and healthcare products form the growth points in the Company's future development. The Company has invested approximately RMB80,000,000 to establish the production line for modern soft capsules and modern oral solution. However, due to the regulation changes of the entire medicine industry by the State, the approval licenses of several new products could not be obtained on time. The Company expects that the production line for modern soft capsules will commence operation within the year while the establishment of the production line for modern oral solution will be completed within the year.

(4) Integration of modern Chinese medicine business to make it one of the Company's core businesses as soon as possible

The Company further acquired the interest of Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. in June 2007, since then the Group held 75.5% of its equity interest, and changed its name to Shaanxi Lijun Modern Chinese Medicine Co., Ltd. in August 2007, making it to be the platform for modern Chinese medicine development for the Company. A number of unique products such as Kangnaoshuai capsules（抗腦衰膠囊）, Miaoji Pills and Shayuanzi Granule will be launched in an effort to realize the scaled sales within years.

(5) Acquisitions and mergers are still our development strategy

The pharmaceutical industry is now undergoing a long-term restructuring phase. We will fully leverage on our branding advantages in China to search for all possible acquisitions and mergers opportunities, with the objective to provide more resources for the Company's rapid development.

On behalf of the Board, I hereby express our genuine gratitude to our investors and employees for their dedicated support.

Wu Qin
Chairman

Hong Kong, 10 September 2007

MANAGEMENT DISCUSSION AND ANALYSIS

SALES

The Group's total sales increased from RMB447,581,000 for the corresponding period last year by 1.0% to RMB451,976,000 for the six months ended 30 June 2007.

	For the six months ended 30 June				
	2007		2006		
	Sales	**Percentage of sales**	Sales	Percentage of sales	Change
	RMB'000	***%***	*RMB'000*	*%*	*%*
Antibiotics					
— Lijunsha	**219,901**	**48.7**	212,086	47.4	3.7
— Paiqi	**46,071**	**10.2**	44,615	10.0	3.3
— Other antibiotics	**58,765**	**13.0**	70,304	15.7	(16.4)
Total sales of antibiotics	**324,737**	**71.9**	327,005	73.1	(0.7)
Non-antibiotics finished medicines	**86,604**	**19.1**	77,829	17.4	11.3
Sales of bulk pharmaceuticals	**39,804**	**8.8**	39,445	8.8	0.9
Others	**831**	**0.2**	3,302	0.7	(74.9)
Group's total sales	**451,976**	**100**	447,581	100	1.0

ANTIBIOTICS

The sales of antibiotics for the period amounted to RMB324,737,000, which was similar to that of the corresponding period last year.

The sales of Lijunsha, the Group's core product, accounted for 48.7% of the Group's total sales and amounted to RMB219,901,000, representing an increase of 3.7% as compared to the corresponding period last year. In 2007, the Group continued to reinforce its efforts in market exploration for Lijunsha in small and medium-sized cities and rural areas. The sales of Lijunsha continued to grow in these regions.

In respect of Paiqi, the Group continued to promote the product in the first-tier cities. For the six months ended 30 June 2007, sales of Paiqi amounted to RMB46,071,000, representing an increase of 3.3% from RMB44,615,000 for the corresponding period last year.

Affected by a number of factors such as price reduction, sales of other antibiotic products such as Cephalosporins and Erythormycin tablets recorded a negative growth.

NON-ANTIBIOTICS FINISHED MEDICINES

Benefited from the increased demand in the Group's non-antibiotics finished medicine products in small and medium-sized cities and rural areas, sales in this category recorded RMB86,604,000 for the six months ended 30 June 2007, representing an increase of 11.3% as compared to the corresponding period last year.

BULK PHARMACEUTICALS

The sales of bulk pharmaceuticals for the six months ended 30 June 2007 amounted to RMB39,804,000, which was similar to that of the corresponding period last year.

COST OF GOODS SOLD AND GROSS PROFIT

The total cost of goods sold amounted to RMB226,072,000 for the six months ended 30 June 2007. The cost of direct materials, direct labour and overhead represented 78%, 8% and 14% of the total cost of goods sold respectively.

For the six months ended 30 June 2007, the Group recorded a total gross profit of RMB225,904,000. Due to the increase in cost of raw materials, overall gross profit margin had decreased by 2.3 percentage points, from 52.3% for the corresponding period last year to 50.0% for the six months ended 30 June 2007.

SELLING AND MARKETING EXPENSES

For the six months ended 30 June 2007, selling and marketing expenses amounted to approximately RMB117,745,000, which mainly comprised advertising expenses of approximately RMB24,806,000, marketing expenses of approximately RMB56,842,000 and sales office and staff expenses of approximately RMB16,046,000.

The decrease of 3.5% in selling and marketing expenses for the six months ended 30 June 2007 as compared with that of the corresponding period last year was mainly attributable to decrease in advertising expenses and cost control in sales activities.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the six months ended 30 June 2007 was RMB62,746,000, increased by 2.5% as compared to that of the corresponding period last year.

The general and administrative expenses mainly comprised salaries of approximately RMB22,931,000, depreciation of approximately RMB5,716,000, office and rental expenses of approximately RMB5,088,000 and research and development expenses of approximately RMB2,559,000.

OPERATING PROFIT

For the six months ended 30 June 2007, the Group's operating profit amounted to RMB67,114,000, representing an increase of 31.2% as compared to that of the corresponding period last year, whereas operating profit margin (defined as operating profit divided by total sales) increased from 11.4% to 14.8%.

FINANCE COSTS

The Group's finance costs for the period amounted to RMB7,101,000 of which, RMB5,942,000 related to bank borrowings and RMB1,159,000 related to convertible bond. The increase of RMB3,807,000 in finance costs as compared to that of the corresponding period last year was due to the increase in bank loan and issue of convertible bond to finance the acquisition of interest in subsidiaries.

INCOME TAX EXPENSE AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD

The enterprise income tax full exemption period of the Group's major subsidiary, Xian Lijun ceased on 31 December 2006. For the six months ended 30 June 2007, enterprise income tax rate of Xian Lijun was 12% and the Group recorded an income tax expenses of RMB9,699,000.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company for the six months ended 30 June 2007 increased by 24.1% to RMB51,655,000 while net profit margin (profit attributable to equity holders of the Company for the period divided by total sales) increased to 11.4% from 9.3% for the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2007, the cash and cash equivalents of the Group (including the New Orient Group acquired on 29 June 2007) aggregated to RMB149,035,000 (31 December 2006: RMB167,387,000), comprising RMB54,876,000 (31 December 2006: RMB46,469,000) of cash and cash equivalents denominated in Hong Kong dollars, RMB93,749,000 (31 December 2006: RMB116,068,000) in RMB and RMB410,000 (31 December 2006: RMB4,850,000) in other currencies.

As at 30 June 2007, the Group (including the New Orient Group acquired on 29 June 2007) has restricted deposits amounted to RMB37,443,000 (31 December 2006: RMB16,248,000) as guarantee of the bank borrowings.

Bank borrowings of the Group (including the New Orient Group acquired on 29 June 2007) amounted to RMB348,142,000 (31 December 2006: RMB209,376,000) as at 30 June 2007, comprising RMB93,542,000 (31 December 2006: RMB80,376,000) of bank borrowings denominated in Hong Kong dollars and RMB254,600,000 (31 December 2006: RMB129,000,000) in RMB.

Gearing ratio of the Group (including the New Orient Group acquired on 29 June 2007) (defined as total liabilities divided by total assets) decreased from 45.1% as at 31 December 2006 to 44.6% as at 30 June 2007.

Current ratio of the Group (including the New Orient Group acquired on 29 June 2007) (defined as current assets divided by current liabilities) decreased from 1.43 as at 31 December 2006 to 1.1 as at 30 June 2007.

INTEREST RATE AND FOREIGN EXCHANGE RISK

Substantially all of the Group's businesses are operated in the PRC and are denominated in RMB while a small portion of which is denominated in US dollar or HK dollar. Therefore, interest rate and foreign exchange risk is insignificant.

PLEDGE OF ASSETS

As at 30 June 2007, bank deposits of HK$20,509,000 and the Group's land use rights, property & plant and machinery & equipment with the net book amount of approximately RMB54,975,000, RMB92,934,000 and RMB132,637,000 respectively were pledged as collateral for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group did not have any material contingent liabilities.

INTERIM DIVIDEND

The Directors resolved to pay on 2 November 2007 an interim dividend of HK$0.01 per share (amounting to a total of approximately HK$20,074,000) for the six months ended 30 June 2007 to the shareholders named in the register of members of the Company on 5 October 2007. The interim dividend represents a payout rate of 38% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2007.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year. Save as the allotment and issuance of 110,000,000 shares of the Company with par value of HK$0.1 in relation to acquisition of New Orient, 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 2007.

ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL AND THE SHAREHOLDER'S LOAN OF NEW ORIENT INVESTMENTS LIMITED ("ACQUISITION OF NEW ORIENT")

On 25 March 2007, the Company entered into an acquisition agreement with CMP Group Limited ("CMP") as vendor and China Pharmaceutical Company Limited ("CPCL") as guarantor of the vendor, pursuant to which the Company had agreed to purchase and CMP had agreed to sell the entire interests in, and a shareholder loan of, its wholly owned subsidiary New Orient Investments Limited ("New Orient").

The Acquisition of New Orient constitutes a major transaction of the Company under Rules 14.06(3) of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As Mr. Qu Jiguang is an independent non-executive Director and also the ultimate controlling shareholder of CMP, the entering into of the acquisition agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The acquisition agreement is therefore subject to approval of the independent shareholders at an extraordinary general meeting.

The Acquisition of New Orient was approved by independent shareholders at an extraordinary general meeting held on 26 June 2007 and was completed on 29 June 2007. Total consideration of the acquisition was HK$510,000,000 which was satisfied by the Company in the following manner:

(i) HK$319,000,000 was paid by the Company by way of the allotment and issued of 110,000,000 shares of the Company with par value of HK$0.10 ("Consideration Shares") to CPCL, which held 55.14% interest of CMP.

(ii) Cashier orders amounted HK$101,852,000 were paid to CPCL.

(iii) Cashier orders amounted HK$89,148,000 were paid to Bowley Limited, which held 17.48% interest of CMP.

CPCL has guaranteed to the Company that the audited consolidated net profit of the New Orient together with its subsidiaries ("New Orient Group") for the financial year ending 31 December 2007 will not be less than RMB70,000,000 or CPCL will compensate the shortfall on a dollar-for-dollar basis. CPCL has placed 10,000,000 shares among the 110,000,000 Consideration Shares with the Company as security for the profit guarantee in accordance with the acquisition agreement.

Shareholders may refer to the announcement of the Company dated 30 March 2007 and circular dated 10 June 2007 for the details of the acquisition.

Following the completion of the acquisition of the New Orient, Mr. Qu Jiguang, an independent non-executive Director was no longer being independent to the Company. He was re-designated as an executive Director and Mr. Wang Yibing was appointed as an independent non-executive Director on 26 July 2007.

ZERO COUPON CONVERTIBLE BONDS DUE 2010 ("BONDS")

On 16 May 2007, the Company entered into a subscription agreement with ABN ARMO Bank N.V. ("ABN"), pursuant to which ABN agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds with an aggregate principal amount of RMB160 million.

Based on an initial conversion price of HK$4.15 ("Conversion Price") and assuming full conversion of the Bonds at the initial conversion price with a fixed exchange rate of HK$1 = RMB0.98339, the Bonds will be convertible into 39,205,419 shares (subject to adjustment) of the Company with par value of HK$0.10 each ("Shares"), representing approximately 9.79% of the issued share capital of the Company as at 30 June 2007 and approximately 8.92% of the enlarged issued share capital of the Company. The Shares to be issued upon conversion of the Bonds will rank pari passu in all respects with the Shares then in issue on the relevant conversion date.

The net proceeds from the issue of Bonds amounted to approximately HK$160,000,000, of which approximately HK$121,000,000 were used for partial payment of the consideration of the acquisition of New Orient and the balance were used for general working capital of the Group.

On 28 August 2007, shareholders of the Company had approved that each share of the Company with par value of HK$0.1 be subdivided into 5 shares with par value of HK$0.02 with effect from 29 August 2007, Conversion Price of the Bonds was adjusted to HK$0.83 following the share subdivision.

Shareholders may refer to the announcement of the Company dated 17 May 2007, 18 May 2007 and 28 August 2007 for the details of the Bonds. Completion of the subscription agreement took place on 30 May 2007. As at 30 June 2007, no Shares were issued in relation to conversion of Bonds.

SHAANXI LIJUN MODERN CHINESE MEDICINE CO., LTD. ("陝西利君現代中藥有限公司")

In June 2007, Xian Lijun had subscribed RMB10,000,000 in the share capital of Shaanxi Lijun Modern Chinese Medicine Co., Ltd. ("陝西利君現代中藥有限公司") (formerly known as Shaanxi Lijun Heng Xin Tang Pharmaceutical Co., Ltd. ("陝西利君恒心堂藥業有限公司")), since then the interest holding of Xian Lijun in Shaanxi Lijun Modern Chinese Medicine Co., Ltd. increased from 51% to 75.5%.

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.

No option has been granted by the Company under the Scheme since its adoption.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group had approximately 3,550 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 emolument 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 2007 was RMB50,478,000.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 30 June 2007, the following Directors had interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange.

Long positions in the Shares

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Interest in a controlled corporation *(Note 1)*	5,156,000	1.3%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 2)*	110,000,000	27.5%

Notes:

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

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

Save as disclosed above, as at 30 June 2007, 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

As at 30 June 2007, the following persons, other than a Director or chief executive of the Company, have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under S336 of the SFO.

Long positions in the Shares

Name of Shareholder	Capacity	Number of Shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	123,984,000	31.0%
CPCL	Beneficial owner	110,000,000	27.5%
Mr. Qu *(Note 2)*	Interest of controlled corporation	110,000,000	27.5%
Victory Rainbow Investment Limited	Beneficial owner	58,300,000	14.6%
Grand Ocean Shipping Company Ltd. *(Note 3)*	Interest of controlled corporation	58,300,000	14.6%
Ms. Chen Lin-Dong *(Note 3)*	Interest of controlled corporation	58,300,000	14.6%
Mr. Xu Ming *(Note 3)*	Interest of controlled corporation	58,300,000	14.6%

Name of Shareholder	Capacity	Number of Shares	% of the issued share capital of the Company
Ms. Zhang Minfang *(Note 4)*	Interest of spouse	5,156,000	1.3%
ABN AMRO Bank N.V.	Beneficial owner	20,370,709	5.1%
ABN AMRO Holding N.V. *(Note 5)*	Interest of controlled corporation	20,370,709	5.1%

Notes:

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

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

(3) Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia, which in turn is owned as to 50% by Ms. Chen Lin-Dong and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Chen Lin-Dong and Mr. Xu Ming is deemed to be interested in the Shares held by Victory Rainbow Investment Limited.

(4) Success Manage is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, Mr. Wu Qin and his spouse, Ms. Zhang Mingfang, are deemed to be interested in all the Shares held by Success Manage.

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE

The Company has complied with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the period.

The Company has adopted the Model Code as the code for securities transactions by Directors. The Company, having made specific enquiry, confirms that all directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2007.

INDEPENDENT REVIEW OF AUDITORS

The Interim Financial Information for the six months ended 30 June 2007 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 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 3 October 2007 to Friday, 5 October 2007 (both day 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 Shops 1806-07, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 2 October 2007.

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 10 September 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

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 23 to 48, 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 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 September 2007

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Note	**30 June 2007 Unaudited**	31 December 2006 Audited
ASSETS			
Non-current assets			
Land use rights	*5*	**64,565**	6,945
Property, plant and equipment	*5*	**635,616**	359,943
Intangible assets	*5,16*	**517,478**	6,983
Deferred income tax assets		**8,610**	8,402
Available-for-sale financial assets		**3,662**	609
Total non-current assets		**1,229,931**	382,882
Current assets			
Inventories		**135,494**	85,485
Trade and bills receivables	*6*	**310,273**	215,867
Financial assets at fair value through profit or loss		**5,775**	—
Prepayments, deposits and other receivables		**50,287**	47,039
Restricted cash		**37,443**	16,248
Cash and cash equivalents		**149,035**	167,387
Total current assets		**688,307**	532,026
Total assets		**1,918,238**	914,908
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*7*	**40,948**	30,229
Reserves	*8*	**1,020,342**	472,088
		1,061,290	502,317
Minority interest		**670**	—
Total equity		**1,061,960**	502,317

	Note	30 June 2007 Unaudited	31 December 2006 Audited
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*11*	**29,488**	28,131
Long-term payables	*9*	**12,941**	12,713
Convertible bonds	*17*	**148,034**	—
Deferred income tax liabilities	*16, 17*	**40,106**	—
Total non-current liabilities		**230,569**	40,844
Current liabilities			
Trade and bills payables	*10*	**139,478**	52,192
Deposits and advance receipts from customers		**16,306**	10,348
Accruals and other payables		**102,925**	96,649
Income tax payable		**21,892**	14,628
Dividend payable		**11,061**	2,582
Amount due to minority shareholder of a subsidiary		**11,742**	11,742
Short-term bank borrowings	*11*	**288,064**	169,188
Current portion of long-term bank borrowings	*11*	**30,590**	12,057
Current portion of long-term payables	*9*	**3,651**	2,361
Total current liabilities		**625,709**	371,747
Total liabilities		**856,278**	412,591
Total equity and liabilities		**1,918,238**	914,908
Net current assets		**62,598**	160,279
Total assets less current liabilities		**1,292,529**	543,161

WU QIN
DIRECTOR

QU JIGUANG
DIRECTOR

The notes on pages 28 to 48 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

(All amounts in RMB thousands unless otherwise stated)

		Six months ended 30 June	
	Note	**2007 Unaudited**	2006 Unaudited
Revenue	*4*	**451,976**	447,581
Cost of sales		**(226,072)**	(213,403)
Gross profit		**225,904**	234,178
Other gain — net	*12*	**21,701**	176
Selling and marketing costs		**(117,745)**	(121,996)
General and administrative expenses		**(62,746)**	(61,215)
Operating profit	*12*	**67,114**	51,143
Finance income		**1,341**	3,182
Finance costs		**(7,101)**	(3,294)
Finance costs — net		**(5,760)**	(112)
Profit before income tax		**61,354**	51,031
Income tax expenses	*13*	**(9,699)**	273
Profit for the half year		**51,655**	51,304
Attributable to:			
— Equity holders of the Company		**51,655**	41,615
— Minority interest		**—**	9,689
		51,655	51,304
Earnings per share for profit attributable to the equity holders of the Company *(expressed in RMB per share)*			
— Basic	*14*	**0.035**	0.029
— Diluted	*14*	**0.032**	0.029
Dividends	*15*	**19,560**	20,933

The notes on pages 28 to 48 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB thousands unless otherwise stated)

		Unaudited				
		Attributable to equity holders of the Company				
	Note	Share capital	Reserves	Total	Minority interest	Total equity
Balance at 1 January 2006		30,229	470,496	500,725	93,647	594,372
Profit for the half year		—	41,615	41,615	9,689	51,304
Exchange difference		—	(2,352)	(2,352)	—	(2,352)
Dividends declared to equity holders of the Company		—	(47,848)	(47,848)	—	(47,848)
Dividends declared to minority interest of a subsidiary		—	—	—	(11,742)	(11,742)
Acquisition of minority interest of a subsidiary		—	(11,859)	(11,859)	(90,697)	(102,556)
Balance at 30 June 2006		30,229	450,052	480,281	897	481,178

		Unaudited				
		Attributable to equity holders of the Company				
		Share capital	Reserves	Total	Minority interest	Total equity
Balance at 1 January 2007		30,229	472,088	502,317	—	502,317
Issue of share capital		10,719	509,123	519,842	—	519,842
Issue of convertible bonds	*17*	—	9,073	9,073	—	9,073
Profit for the half year		—	51,655	51,655	—	51,655
Exchange difference		—	(850)	(850)	—	(850)
Dilution of minority interest of a subsidiary	*18*	—	(670)	(670)	670	—
Dividends declared to equity holders of the Company		—	(20,077)	(20,077)	—	(20,077)
Balance at 30 June 2007		40,948	1,020,342	1,061,290	670	1,061,960

The notes on pages 28 to 48 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(All amounts in RMB thousands unless otherwise stated)

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Cash flows from operating activities — net	**26,176**	33,948
Cash flows used in investing activities — net	**(162,387)**	(124,526)
Cash flows from/(used in) financing activities — net	**117,859**	(32,611)
Net decrease in cash and cash equivalents	**(18,352)**	(123,189)
Cash and cash equivalents at beginning of period	**167,387**	275,122
Cash and cash equivalents at end of period	**149,035**	151,933

The notes on pages 28 to 48 form an integral part of this condensed consolidated interim financial information.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB thousands unless otherwise stated)

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in the Cayman Islands on 28 September 2004. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KYI-111, 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 thousands of units of Renminbi (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 10 September 2007.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the half year ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("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 2006.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006 as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007. It is not expected to have any impact on the Group financial statements except that the adoption of HKFRS 7 and the amendment of HKAS 1 will result in additional disclosure on the sensitivity analysis to market risk on capital disclosures.

- HKFRS7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. Amendment to HKAS 1, "Capital disclosures", effective for annual periods beginning on or after 1 January 2007;

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies", effective for annual periods beginning on or after 1 March 2006;

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006;

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006; and

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

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

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

- HK(IFRIC)-Int 11, "HKFRS 2 — Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007. It clarifies the application of share-based payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008;

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. Management do not expect the interpretation to be relevant for the Group; and

- HKAS 23 (Revised), "Borrowing Costs", effective for annual periods beginning on or after 1 January 2009. The revised HKAS 23 removes the option of immediately recognising the borrowing costs as an expense, and requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that assets. The revised HKAS 23 only applies to qualifying assets measured at cost and excludes inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis. Management is currently assessing the impact of the revised HKAS 23 on the Group's operations.

4. **SEGMENT INFORMATION**

The Group primarily operates in one business segment — manufacturing and sale of pharmaceutical products. It operates principally in one geographical segment — the PRC. Substantially all of the Group's assets were located in the PRC. Accordingly, no analysis of segment information is presented.

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Sales:		
— Sales of pharmaceutical products	**451,643**	446,386
— Processing income	**184**	829
— Sales of raw materials and by products	**149**	366
	451,976	447,581

5. CAPITAL EXPENDITURE

	Unaudited			
	Goodwill	Other intangible assets	Property, plant and equipment	Land use rights
Six months ended 30 June 2006				
Opening net book amount at 1 January 2006	—	—	336,726	7,014
Additions	—	—	22,540	—
Depreciation and amortisation	—	—	(15,704)	(34)
Reversal of impairment	—	—	190	—
Closing net book amount at 30 June 2006	—	—	343,752	6,980

	Goodwill	Other intangible assets	Property, plant and equipment	Land use rights
Six months ended 30 June 2007				
Opening net book amount at 1 January 2007	—	6,983	359,943	6,945
Additions	—	—	23,340	955
Additions resulting from acquisition of subsidiary	406,109	104,846	267,879	60,565
Disposals	—	—	(31)	(3,900)
Depreciation and amortisation	—	(460)	(15,515)	—
Closing net book amount at 30 June 2007	406,109	111,369	635,616	64,565

6. TRADE AND BILLS RECEIVABLES

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

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Within 3 months	**243,768**	182,551
4 to 6 months	**47,204**	24,027
7 to 12 months	**20,169**	14,185
1 to 2 years	**6,737**	2,265
2 to 3 years	**386**	683
More than 3 years	**5,023**	3,843
	323,287	227,554
Less: provision for impairment of receivables	**(13,014)**	(11,687)
	310,273	215,867

7. SHARE CAPITAL

Share capital	Unaudited Number of shares	Amount
	(thousands)	
Balance at 1 January 2006 and 30 June 2006	290,500	30,229

Share capital	Number of shares	Amount
	(thousands)	
Balance at 1 January 2007	290,500	30,229
Shares issued	110,000	10,719
Balance at 30 June 2007	400,500	40,948

The total authorised number of ordinary share is 1,000,000,000 with par value of HK$0.10 per share as at 30 June 2007 (10,000,000,000 with par value of HK$0.02 per share after subdivision (Note 21(b))). All issued shares are fully paid.

On 29 June 2007, the Company issued 110,000,000 shares at HK$4.85 per share.

8. RESERVES

	Unaudited					
	Share premium	Capital reserve *(Note a)*	Statutory reserves *(Note b)*	Exchange difference	Retained earnings	Total
At 1 January 2006	121,239	168,752	59,753	—	120,752	470,496
Profit for the half year	—	—	—	—	41,615	41,615
Exchange difference	—	—	—	(2,352)	—	(2,352)
Dividends	—	—	—	—	(47,848)	(47,848)
Acquisition of minority interest of a subsidiary	—	(11,859)	—	—	—	(11,859)
At 30 June 2006	121,239	156,893	59,753	(2,352)	114,519	450,052

	Unaudited						
	Share premium	Capital reserve *(Note a)*	Equity component of convertible bonds *(Note 18)*	Statutory reserves *(Note b)*	Exchange difference	Retained earnings	Total
At 1 January 2007	121,239	156,893	—	70,989	(2,652)	125,619	472,088
Profit for the half year	—	—	—	—	—	51,655	51,655
Exchange difference	—	—	—	—	(850)	—	(850)
Dividends	—	—	—	—	—	(20,077)	(20,077)
Issue of convertible bonds *(Note 17)*	—	—	9,073	—	—	—	9,073
Dilution of minority interest of a subsidiary *(Note 18)*	—	(670)	—	—	—	—	(670)
Issue of share capital	509,123	—	—	—	—	—	509,123
At 30 June 2007	630,362	156,223	9,073	70,989	(3,502)	157,197	1,020,342

8. RESERVES *(Continued)*

(a) Capital reserve

Capital reserve of the Company includes the difference between the Company's 80% share in paid-up capital of Xi'an Lijun Pharmaceutical Co., Ltd. and the nominal value of the share capital issued by the Company upon the Reorganisation.

(b) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the Group's subsidiaries established in the PRC, each of the Group's subsidiaries is required to set aside 10% of its statutory net profit for the year after offsetting any prior years' accumulative losses as determined under the PRC accounting regulations to the statutory surplus reserve fund before distributing their net profit. When the balance of such reserve reaches 50% of each PRC subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the PRC subsidiary's share capital after such issuance.

In addition, each of the PRC subsidiaries is required to set aside 5% to 10% of its statutory net profit for the year to the statutory public welfare fund. The statutory public welfare fund is to be utilised to build or acquire capital items for the subsidiary's employees and cannot be used to pay off staff welfare expenses.

9. LONG-TERM PAYABLES

The balance mainly represents the retirement benefits and early retirement allowance payable to the employees of Xi'an Lijun Pharmaceutical Co., Ltd.

The maturity profile of the long-term payables is as follows:

	As at	
	30 June 2007	31 December 2006
	Unaudited	Audited
Within 1 year	**3,651**	2,361
Between 1 to 2 years	**2,720**	2,362
Between 2 to 5 years	**4,619**	3,557
More than 5 years	**5,602**	6,794
	16,592	15,074
Less: Current portion included in current liabilities	**(3,651)**	(2,361)
	12,941	12,713

10. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables at respective balance sheet dates is as follows:

	As at	
	30 June 2007	31 December 2006
	Unaudited	Audited
Within 3 months	**83,810**	36,186
4 to 6 months	**23,493**	1,296
7 to 12 months	**8,385**	657
1 to 3 years	**22,000**	12,272
More than 3 years	**1,790**	1,781
	139,478	52,192

11. BANK BORROWINGS

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Long-term		
— Due within one year	**30,590**	12,057
— Due over one year	**29,488**	28,131
Short-term	**288,064**	169,188
Total borrowings	**348,142**	209,376
Representing:		
Unsecured	**94,000**	124,000
Secured	**110,600**	5,000
Guaranteed	**143,542**	80,376
	348,142	209,376

As at 30 June 2007, certain buildings, machinery and equipment with a net book value of RMB225,571,000 (2006: nil) and land use rights with a net book value of RMB54,975,000 (2006: RMB4,000,000) were pledged as collateral for the Group's bank borrowings.

As at 30 June 2007, the bank deposit with the amount of HK$20,509,000 was pledged as collateral for the Group's short-term loans amounting HK$96,000,000.

Interest expense on bank borrowings for the six months ended 30 June 2007 is RMB7,101,000 (30 June 2006: RMB3,294,000).

12. OPERATING PROFIT

The following items have been credited/charged to the operating profit during the interim period:

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Crediting		
Reversal of impairment charge relating to property, plant and equipment	**—**	(190)
Write back of trade payables	**(6,374)**	—
Gain on disposal of available-for-sale financial assets	**(14,927)**	—
Investment income	**(400)**	(176)
Charging		
Write down of inventories	**1,880**	—
Raw material and consumables used	**170,046**	161,981
Staff costs including directors' emoluments	**50,478**	45,518
Depreciation and amortisation	**15,515**	15,738
Provision for impairment of receivables	**314**	4,963
Operating leases-rental expenses in respect of land use rights in the PRC	**2,782**	2,782
Advertising expenses	**24,806**	34,580
Research and development costs	**2,559**	3,561

13. INCOME TAXES EXPENSES

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

No Hong Kong profits tax was provided as the Group had no assessable profits in Hong Kong for the six months ended 30 June 2007.

13. INCOME TAXES EXPENSES *(Continued)*

In May 2005, the PRC Enterprise Income Tax ("EIT") rate of Xi'an Lijun Pharmaceutical Co., Ltd. has been approved to be 24%, which was effective from 1 January 2005. Being incorporated as foreign investment enterprise in PRC, Xi'an Lijun Pharmaceutical Co., Ltd. has obtained approvals in May 2005 from the relevant tax authorities in Xi'an, which is also effective from 1 January 2005, for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC.

The PRC EIT rate of Shijiazhuang No.4 Pharmaceutical Co., Ltd. has been approved to be 24%, which was effective from 1 January 2005. Being incorporated as foreign investment enterprise in PRC, Shijiazhuang No. 4 Pharmaceutical Co., Ltd. has obtained approvals from the relevant tax authorities in Shijiazhuang, which is also effective from 1 January 2005, for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in PRC. Shijiazhuang No. 4 Pharmaceutical Co., Ltd. began its tax holiday since 2005.

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Current income tax	**8,880**	—
Deferred income tax	**819**	(273)
	9,699	(273)

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB51,655,000 by the weighted average number of 1,458,577,350 ordinary shares in issue (after subdivision (Note 21 (b))) during the period.

The comparative basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company of RMB 41,615,000 by an aggregate of 1,452,500,000 shares (after subdivision (Note 21 (b))).

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense.

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	**51,655**	41,615
Interest expense on convertible bonds	**1,159**	—
Profit used to determine diluted earnings per share	**52,814**	41,615
Weighted average number of ordinary shares in issue (thousands)	**1,458,577**	1,452,500
Adjustments for		
— assumed conversion of convertible bonds (thousands)	**196,027**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,654,604**	1,452,500
Diluted earnings per share (RMB per share)	**0.032**	0.029

15. DIVIDENDS

A dividend in respect of the six months ended 30 June 2007 of HK$0.01 per share, amounting to a total dividend of HK$20,074,000 (30 June 2006: HK$20,335,000), was proposed by the directors on 10 September 2007. This condensed consolidated financial information does not reflect this dividend payable.

16. BUSINESS COMBINATION

On 29 June 2007, the Company carried out a related party transaction with CMP Group Limited (Note 19(a)) to acquire 100% of the share capital of New Orient, which is engaged in manufacture and distribution of pharmaceutical products.

Details of net assets acquired and goodwill are as follows:

	Unaudited
Purchase consideration:	
— cash paid	186,110
— share issued *(Note 7)*	519,842
— direct costs relating to the acquisition	12,417
— cash paid for shareholder's loan of acquiree	(10,994)
Total purchase consideration	707,375
— fair value of net identifiable assets acquired	(301,266)
Goodwill	406,109

The goodwill is attributable to New Orient Group's market position and profitability and the significant synergies expected to arise after its acquisition by the Group.

16. BUSINESS COMBINATION *(Continued)*

The assets and liabilities arising from the acquisition are as follows:

	Fair value Unaudited	Acquiree's carrying amount Unaudited
Land use rights	60,565	24,532
Property, plant and equipment	267,879	249,773
Customer base (included in intangibles)	60,340	—
Trademarks (included in intangibles)	44,360	—
Other intangible assets	146	146
Deferred income tax assets	1,027	1,027
Inventories	39,851	39,851
Trade and bills receivables	75,148	75,148
Prepayments, deposits and other receivables	14,731	14,731
Restricted cash	4,474	4,474
Cash and cash balances	33,472	33,472
Long-term bank borrowings	(10,000)	(10,000)
Long-term payables	(1,229)	(1,229)
Deferred income tax liabilities	(38,182)	—
Shareholder's loans	(10,953)	(10,953)
Trade and bills payables	(73,680)	(73,680)
Deposits and advance receipts from customers	(2,100)	(2,100)
Accruals and other payables	(15,746)	(15,746)
Income tax payable	(3,077)	(3,077)
Short-term bank borrowings	(130,600)	(130,600)
Current portion of long-term bank borrowings	(15,000)	(15,000)
Current portion of long-term payables	(160)	(160)
Net identifiable assets acquired	301,266	180,609

Outflow of cash to acquire business, net of cash acquired:	
— cash consideration	186,110
— cash paid for direct costs relating to the acquisition	2,068
— cash and cash equivalents in subsidiary acquired	(33,472)
Cash outflow on acquisition	154,706

17. CONVERTIBLE BONDS

On 30 May 2007, the Company issued RMB160,000,000 Zero Coupon Convertible Bonds (the "Bonds"). Unless previously redeemed, converted or purchased and cancelled as provided in the terms and conditions of the Bonds, the Company has to redeem the Bonds at 121.1547 per cent of its principal amount on 30 May 2010. The Bonds would be converted at initial conversion price of HK$4.15 per share at a fixed exchange rate of HK$1 to RMB0.98339.

The Bonds may be redeemed at the option of the Company in whole, but not in part, in accordance with terms and conditions of the Bonds at a redemption price equal to the early redemption amount.

The holders of the Bonds will have the right to require the Company to redeem all or some of the Bonds at equivalent of the early redemption amount following the occurrence of: (i) when the shares of the Company cease to be listed or admitted to trading on the Stock Exchange; or (ii) when there is a change of control in the Company.

The early redemption amount of the Bonds is determined at a gross yield of 6.5% per annum, calculated on a semi-annual basis.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity as reserves.

17. CONVERTIBLE BONDS *(Continued)*

	30 June 2007 Unaudited
Initial recognition:	
— Face value of convertible bond issued	160,000
— Equity conversion component net of deferred tax liability	(9,073)
— Deferred income tax liabilities	(1,924)
— Issuing expenditure	(2,128)
Liability component at 30 May 2007	146,875
Interest expense	1,159
Liability component at 30 June 2007	148,034

The carrying amount of the liability component of the convertible bond reflects its current fair value.

Interest on the bond is calculated on the effective yield basis by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bond.

18. DILUTION OF MINORITY INTEREST OF A SUBSIDIARY

As at 28 June 2007, Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") injected RMB10,000,000 to Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. ("Hengxintang"). Thus, interest held by Xi'an Lijun increased from 51% to 75.5%. Minority interest diluted from 49% to 24.5% after the injection by Xi'an Lijun. Total paid-in capital of Hengxintang increased from RMB10,000,000 to RMB20,000,000.

The movement of minority interest is as follows:

	Minority interest Unaudited
At 1 January 2007	—
Add: Dilution of minority interest of Hengxintang by Xi'an Lijun injection	670
At 30 June 2007	670

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) During the periods, the directors are of the view that the following companies are related parties of the Group:

Name	Relationship
Rejoy Group Limited Liability Company ("Rejoy Group")	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. before 22 June 2006
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. before 28 December 2004
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	Subsidiary of Rejoy Technology
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xiyao Construction and Installation Co., Ltd. ("Xiyao Construction")	Joint venture of Xi'an Pharmacy Factory after March 2005 (wholly-owned subsidiary of Xi'an Pharmacy Factory before March 2005)
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	Subsidiary of Rejoy Technology after November 2004 (Joint venture of Xi'an Lijun Pharmaceutical Co., Ltd. before November 2004)
Global Printing Co., Ltd. ("Global Printing")	Controlled by the same ultimate parent company of Rejoy Group
CMP Group Limited	Mr. Qu Jiguang, a Director of the Company, is a director and the controlling shareholder of CMP Group Limited

19. RELATED-PARTY TRANSACTIONS *(Continued)*

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

		Six months ended 30 June	
Nature of transactions	**Name of related party**	**2007 Unaudited**	2006 Unaudited
Purchasing of raw materials and packaging materials	Rejoy Baichuan	**6**	11
	Rejoy Packaging	**418**	798
	Global Printing	**3,529**	6,953
		3,953	7,762
Sales of finished goods	Rejoy Medicine	**1,079**	6,965
	Rejoy Baichuan	**8,717**	8,991
	Xi'an Pharmacy Factory	**111**	—
		9,907	15,956
Provision of utilities from	Xi'an Pharmacy Factory	**26,419**	27,670
Sharing of administrative costs from	Xi'an Pharmacy Factory	**6,500**	6,500
Lease of land use rights from	Rejoy Group	**2,782**	2,782
Lease of office premises to	Rejoy Group	**100**	100
Provision of building construction services by	Xiyao Construction	**708**	738
Investment in the form of land use rights	Rejoy Real Estate	**3,533**	—

19. RELATED-PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

	Six months ended 30 June	
	2007 Unaudited	2006 Unaudited
Salaries and other benefits	**1,381**	1,261
Contributions to state-sponsored retirement plans	**27**	25
	1,408	1,286

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

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Amounts due from related parties included in trade receivables		
— Rejoy Medicine	**5,310**	8,268
— Rejoy Baichuan	**11,734**	8,809
	17,044	17,077
Amounts due from related parties included in prepayments, deposits and other receivables		
— Xi'an Pharmacy Factory	**—**	3,600
— Rejoy Packaging	**176**	—
	176	3,600
Amounts due to related parties included in trade payables		
— Global Printing	**2,086**	1,528
Amounts due to related parties included in accruals and other payables		
— Rejoy Group	**710**	6,350
— Xi'an Pharmacy Factory	**76**	—
	786	6,350

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

20. COMMITMENTS

(a) Capital commitments

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Purchase of property, plant and equipment		
— Contracted but not provided for	**12,550**	14,824

(b) Operating lease commitments

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

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Not later than one year	**5,491**	6,760
Later than one year and not later than five years	**9,900**	1,091
	15,391	7,851

21. EVENTS AFTER THE BALANCE SHEET DATE

(a) Conversion of convertible bonds

Subsequent to the period ended 30 June 2007, the Bonds amounting to RMB4,000,000 were converted to 980,134 of ordinary shares of the Company at the fixed exchange rate of HK$1 to RMB0.98339 and fixed conversion price of HK$4.15.

(b) Share subdivision of share capital

Pursuant to the resolutions passed at the extraordinary general meeting held on 28 August 2007, every one existing issued and unissued shares of HK$0.10 each in the capital of the Company was subdivided into five shares of HK$0.02 each with effect from 29 August 2007 and the subdivided shares should rank pari passu in all respects with each other and had the rights and privileges and were subject to the restrictions contained in the Articles of Association of the Company.