

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 2006.

RESULTS AND DIVIDEND PAYMENTS

The operation of the Group was relatively stable for the first half of the year. During the period, sales income amounted to RMB447,581,000, representing an increase of 3.3% as compared to the corresponding period last year, while profit attributable to shareholders amounted to RMB41,615,000, representing an increase of 10.8% as compared to the corresponding period last year.

The Board has resolved the payment of an interim dividend of HK\$0.07 per share.

BUSINESS REVIEW

The Group's antibiotics products still accounted for a significant portion of its sales income. The sales income of Lijunsha, the core product of the Group, increased by 4.3% as compared to the corresponding period last year. The overall sales of antibiotics generally remained level as compared to the corresponding period last year. As a result of the sales increase in products such as other finished medicines, bulk pharmaceuticals and Dobesilate, the proportion of antibiotics in overall sales income further decreased.

The growth in the sales of non-antibiotics finished medicines was satisfactory. Dobesilate achieved a growth of 43%, and was still the Group's product with the highest growth rate.

Under the influence of the State's policy in price reduction last year and business environment in the first half of the year, the growth of the Group's Azithromycin products was below expectation, while Cephalosporins products recorded a more significant negative growth. Due to the reorganization of Hengxintang, the production and operation of Chinese medicinal products was not yet back on a normal track.

The overall gross profit margin of the Group further increased, which was mainly attributable to the increase in the weighting of high margin products in the portfolio and the cost control efforts of the Group.

In respect of material investment, the Company acquired 20% equity interests in Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun"), which then became a wholly-owned subsidiary of the Group and the consideration involved in the acquisition amounted to RMB102,556,452. The acquisition was entirely financed with bank loans. Capital expenditures during the period mainly comprised the project for the expansion of production capacities of Paiqi lyophilized powder for injection, the design of the production line of oral solution products and the construction of its certain civil works and the order of core production lines. For the six months ended 30 June 2006, the capital expenditure amounted to RMB22,540,000 in total.

OUTLOOK FOR THE SECOND HALF OF THE YEAR

Looking forward to the second half of the year, the development of pharmaceutical industry still faces significant challenges. Quality, safety and legality of pharmaceutical products in the whole operating system are raising increasing concern. As the State reinforces the control over the entire production and operation process, significant changes in the pharmaceutical market are imminent. As a pharmaceutical production and operation corporation, the Group would research on the State's new policies and legislation in a timely manner so as to seize the opportunities arising and, more importantly, try to eliminate the impact that may be caused.

Development in the rural markets still remains one of the Company's major strategies. With the State's establishment of rural medical insurance systems, there is immense growth potential in the rural pharmaceutical markets. The Group will still prioritize the promotion of Lijunsha and the sales of other general medicines in rural areas.

The development of Cephalosporins products and Paiqi products in medium to large cities markets needs to be strengthened. However, under the influence of the overall pharmaceutical market environment, the Group may lower the sales target for the two product types.

The development of non-prescriptive medicines and health-care products will remain as the major direction for the Group to realign the product mix. To strive for a significant increase in the proportion of non-prescriptive medicines and health-care products in sales next year, the Group will enhance the advertising and promotion of non-prescriptive medicines, Dobesilate, and accelerate the construction of the production line of new products in the second half of the year.

The Group will leverage on its edges in branding and sales network to maintain its leading position in Macrolide antibiotics. The Group also endeavors to increase its market share through the consolidation of the pharmaceutical market, achieving satisfactory returns for its shareholders.

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

On behalf of the Board,

Wu Qin

Chairman

Hong Kong, 1 September 2006