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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 income 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.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in RMB unless otherwise stated)

		Six months ended 30 June	
		2006	2005
		Unaudited	Audited
	Note	***RMB'000***	*RMB'000*
Sales	*3*	**447,581**	433,092
Cost of goods sold		**(213,403)**	(218,824)
Gross profit		**234,178**	214,268
Other gain/(losses), net		**3,358**	(842)
Selling and marketing costs		**(121,996)**	(102,678)
General and administrative expenses		**(61,215)**	(48,784)
Operating profit	*7*	**54,325**	61,964
Finance costs		**(3,294)**	(3,471)
Profit before income tax		**51,031**	58,493
Income tax	*8*	**273**	(11,885)
Profit for the half year		**51,304**	46,608
Attributable to:			
— Equity holders of the Company		**41,615**	37,556
— Minority interest		**9,689**	9,052
		51,304	46,608

	Note		
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)	*9*	**0.14**	0.18
Dividends	*10*	**20,933**	4,218

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in RMB unless otherwise stated)

	Note	**30 June 2006 Unaudited** ***RMB'000***	31 December 2005 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**343,752**	336,726
Land use rights		**6,980**	7,014
Deferred income tax assets		**7,708**	7,436
Available-for-sale financial assets		**609**	609
Total non-current assets		**359,049**	351,785
Current assets			
Inventories		**112,085**	93,385
Trade and bills receivables	*4*	**161,951**	151,326
Prepayments, deposits and other receivables		**43,984**	66,000
Bank and cash balances		**254,873**	275,122
Total current assets		**572,893**	585,833
Total assets		**931,942**	937,618
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital		**151,468**	151,468
Reserves	*5*	**328,813**	349,257
		480,281	500,725
Minority interest		**897**	93,647
Total equity		**481,178**	594,372

LIABILITIES			
Non-current liabilities			
Long-term payables		**17,742**	16,512
Total non-current liabilities		**17,742**	16,512
Current liabilities			
Trade and bills payables	*6*	**64,576**	60,264
Deposits and advance receipts from customers		**10,464**	14,516
Accrual and other payables		**85,016**	108,831
Income tax payable		**14,628**	14,628
Dividend payable		**11,742**	14,763
Short-term bank loans		**240,940**	108,000
Current portion of long-term bank loans		**5,000**	5,000
Current portion of long-term payables		**656**	732
Total current liabilities		**433,022**	326,734
Total liabilities		**450,764**	343,246
Total equity and liabilities		**931,942**	937,618
Net current assets		**139,871**	259,099
Total assets less current liabilities		**498,920**	610,884

Notes to the interim condensed consolidated financial information:
(All amounts in RMB unless otherwise stated)

1. Basis of preparation

This condensed consolidated interim financial information for the half year ended 30 June 2006 has been prepared in accordance with HKAS 34, "Interim financial reporting". The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

2. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005 as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for year ending 31 December 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. The Group has decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;

- Amendment to HKAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the group;

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;

- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;

- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and

- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market — waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. This interpretation is not relevant for the Group;

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and

- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

3. Segment information

The Group primarily operates in one business segment — manufacturing and sale of pharmaceutical products. It operates principally in one geographical segment — the People's Republic of China ("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	
	2006	2005
	Unaudited	Audited
	RMB'000	*RMB'000*
Sales:		
— Sales of pharmaceutical products	**446,386**	430,544
— Sales of raw materials and by products	**366**	780
— Processing income	**829**	1,768
	447,581	433,092

4. 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 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *RMB'000*
Trade and bills receivables		
Within 3 months	**133,615**	127,698
4-6 months	**24,790**	18,525
7-12 months	**9,273**	9,534
1-2 years	**2,845**	2,204
2-3 years	**2,139**	2,234
More than 3 years	**3,166**	13,638
	175,828	173,833
Less: provision for impairment of receivables	**(13,877)**	(22,507)
	161,951	151,326

5. Reserves

	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Translation difference *RMB'000*	Acquisition of minority interest *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2005	168,752	45,949	—	—	44,617	259,318
Profit for the half year	—	—	—	—	37,556	37,556
Dividends	—	—	—	—	(3,374)	(3,374)
Balance at 30 June 2005	168,752	45,949	—	—	78,799	293,500
Balance at 1 January 2006	168,752	59,753	—	—	120,752	349,257
Profit for the half year	—	—	—	—	41,615	41,615
Exchange difference	—	—	(2,352)	—	—	(2,352)
Dividends	—	—	—	—	(47,848)	(47,848)
Acquisition of minority interest *(note 11)*	—	—	—	(11,859)	—	(11,859)
Balance at 30 June 2006 (unaudited)	168,752	59,753	(2,352)	(11,859)	114,519	328,813

6. Trade and bills payables

The ageing analysis of accounts and bills payable at respective balance sheet dates are as follows:

	As at	
	30 June	31 December
	2006	2005
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade and bills payables		
Within 3 months	**58,083**	55,037
4-6 months	**1,121**	1,003
7-12 months	**974**	897
1-3 years	**2,454**	1,709
More than 3 years	**1,944**	1,618
	64,576	60,264

7. Operating profit

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

	Six months ended 30 June	
	2006	2005
	Unaudited	Audited
	RMB'000	*RMB'000*
Crediting		
Reversal of inventory write down	**—**	(1,015)
Reversal of impairment charge relating to property, plant and equipment	**(190)**	—
Charging		
Cost of inventories	**161,981**	156,531
Staff costs, including directors' emoluments	**45,518**	44,716
Depreciation and amortisation	**15,738**	17,735
Provision for impairment of receivables	**4,963**	992
Operating leases-rental expenses in respect of land use right in the PRC	**2,782**	2,702
Advertising expenses	**34,580**	23,667
Research and development costs	**3,561**	2,680

8. Income taxes

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 profit in Hong Kong for the six months ended 30 June 2006.

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 PRC.

	Six months ended 30 June	
	2006	2005
	Unaudited	Audited
	RMB'000	*RMB'000*
Deferred income tax	**273**	(11,885)

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB41,615,000 by the weighted average number of 290,500,000 ordinary shares in issue during the period.

The comparative basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company of RMB37,556,000 by an aggregate of 210,000,000 shares, comprising 1 share issued after incorporation of the Company and 209,999,999 shares issued after the capitalisation issue completed, which were deemed to have been in issue since 1 January 2004.

No diluted earnings per share is presented, as the Company has no dilutive potential shares.

10. Dividends

A dividend in respect of the six months ended 30 June 2006 of HK$0.07 per share, amounting to a total dividend of RMB20,933,000, was proposed by the directors on 1 September 2006. This condensed consolidated financial information has not reflected this dividend payable.

11. Business combinations

On 16 May 2006, the Company entered into an agreement with Rejoy Group Limited Liability Company ("Rejoy Group") to acquire an additional 20% equity interests in Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun"), for a cash consideration of RMB102,556,452 (the "Transaction").

Pursuant to the agreement, the Company paid the consideration of RMB102,556,452 to Rejoy Group in June 2006 and thereafter Xi'an Lijun has become a 100% subsidiary.

Details of the Transaction are as follows:

	RMB'000
Purchase consideration:	
— cash paid	102,556
Less: 20% Minority Interest of Xi'an Lijun	(90,697)
Excess of the consideration over the carrying amount of the interests acquired	11,859

Such excess of the consideration over the carrying amount of the interests acquired is recognised directly in equity and attributed to the equity holders of the Company.

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 loans from time to time in case the operating cashflow is insufficient to meet the capital requirements.

As at 30 June 2006, the cash and bank balance aggregated to RMB254,873,000 (31 December 2005: RMB275,122,000), comprising RMB148,724,000 of cash and bank balances denominated in Hong Kong dollars, and RMB106,149,000 in RMB.

Bank loans amounted to RMB245,940,000 as at 30 June 2006 (31 December 2005: RMB113,000,000), comprising RMB102,940,000 of bank loan denominated in Hong Kong dollars and RMB143,000,000 in RMB. The increase was mainly due to bank loan obtained for acquisition of 20% interest in Xi'an Lijun on 23 June 2006.

Gearing ratio (defined as total liabilities divided by total assets) of the Group increased from 36.6% as at 31 December 2005 to 48.4% as at 30 June 2006.

Current ratio (defined as current assets divided by current liabilities) of the Group decreased from 1.79 as at 31 December 2005 to 1.32 as at 30 June 2006.

EXCHANGE EXPOSURE

The Group's principal assets, liabilities, revenue and payments are denominated in HKD and RMB. Despite the recent mild appreciation of the RMB exchange rate, the directors believe that the RMB exchange rate will only appreciate by a small percentage in the foreseeable future. In this regard, the directors believe that exposure to exchange rate fluctuations will not have material adverse effect to the Group.

PLEDGE OF ASSETS

As at 30 June 2006, bank deposits of HK$100,000,000 and the Group's land use rights with the net book amount of approximately RMB6,980,000 was pledged as collateral for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any contingent liabilities.

INTERIM DIVIDEND

The Directors resolved to pay on 29 September 2006 an interim dividend of HK$0.07 per share (amounting to a total of approximately RMB20,933,000) for the six months ended 30 June 2006 to the shareholders named in the register of members of the Company on 21 September 2006. The interim dividend represents a payout rate of 50.3% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

SUBSTANTIAL INVESTMENT AND ACQUISITION

On 23 June 2006, the Group completed the acquisition of 20% interest of Xi'an Lijun from Rejoy Group Limited Liability Company for a consideration of RMB102,556,452. Xi'an Lijun became a wholly-owned subsidiary of the Group after the acquisition. Details of the acquisition had been set out in the circular to the shareholders dated 5 June 2006.

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 of the Stock Exchange during the period.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules 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 Model Code throughout the six months period ended 30 June 2006.

INDEPENDENT REVIEW OF AUDITORS

The Interim Financial Report for the six months ended 30 June 2006 has been reviewed by the auditors of the Company, PricewaterhouseCoopers.

AUDIT COMMITTEE

The Audit Committee has reviewed and approved the Interim Financial Report for the six months ended 30 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 September 2006 to Thursday, 21 September 2006 (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 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 18 September 2006.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2006 interim report containing all the information required by the Listing Rules will be published on the Stock Exchange's website in due course.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board comprises Wu Qin, Wu Zhihong, Huang Chao, Xie Yunfeng and Sun Xinglai as executive Directors, Liu Zhiyong as non-executive Director and Qu Jiguang, Leung Chong Shun and Chow Kwok Wai as independent non-executive Directors.

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