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## **利君國際醫藥(控股)有限公司**

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

*(Incorporated in Cayman Islands with limited liability)*

**(Stock code: 2005)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014**

On behalf of the board of directors of Lijun International Pharmaceutical (Holding) Co., Ltd. (“the Company”), I hereby present the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2014.

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

Under downward pressure from increasing operating costs, falling drug prices and intensified market competition, vigorous efforts have been made to enhance business management, tap internal potential, lower operating costs and expand space for development by increasing domestic and overseas market share, accelerating infrastructural projects to commence production and achieve efficiency, and expediting new product development in 2014. As a result, our market share and operating results have maintained strong growth. In January to June 2014, the Group has achieved steady and positive growth, with a revenue from principal businesses of HK\$1,527 million, representing an increase of 8.3%, and a net profit of HK\$301 million. Among which Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No. 4 Pharma”) materialized a sales income of HK\$996 million, representing a period-to-period increase of 18.6%, and Xi’an Lijun Pharmaceutical Co., Ltd. (“Xi’an Lijun”) materialized a sales income of HK\$531 million, representing a period-to-period decrease of 7.0%. During the period, the Group materialized a net profit of HK\$301 million, representing a period-to-period increase of 32.2%. The increase in profit was mainly attributable to the rapid and efficient development of intravenous infusion solution business. Shijiazhuang No. 4 Pharma materialized a net profit of HK\$275 million, representing over 90% of the Group’s overall net profit.

The board of directors resolved to distribute an interim dividend of HK3 cents per share, amounting to a total of HK\$88.62 million, representing an increase of 51.2% as compared to the same period of last year. The board of directors also resolved to distribute a special dividend of HK3 cents per share, amounting to a total of HK\$88.62 million.

## 2. BUSINESS REVIEW

	For the six months ended 30 June				
	2014	Percentage	2013	Percentage	Change
	Sales	of sales	Sales	of sales	
	HK\$'000	%	HK\$'000	%	%
Intravenous infusion solution and others	<b>996,435</b>	<b>65.2</b>	840,110	59.6	18.6
(Including: Non-PVC soft bag infusion solution)	<b>545,900</b>	<b>35.7</b>	386,010	27.4	41.7
PP plastic bottle infusion solution	<b>279,586</b>	<b>18.3</b>	233,238	16.5	19.9
Antibiotics	<b>270,172</b>	<b>17.7</b>	330,120	23.4	(18.2)
(Including: Lijunsha Paiqi)	<b>157,374</b>	<b>10.3</b>	191,883	13.6	(18.0)
	<b>45,169</b>	<b>3.0</b>	53,975	3.8	(16.3)
Non-antibiotics finished medicines	<b>218,799</b>	<b>14.3</b>	182,571	12.9	19.8
(Including: Dobesilate Lixiding)	<b>53,787</b>	<b>3.5</b>	44,704	3.2	20.3
	<b>22,372</b>	<b>1.5</b>	19,898	1.4	12.4
Sales of bulk pharmaceuticals	<b>41,759</b>	<b>2.8</b>	57,567	4.1	(27.5)
Others	<b>—</b>	<b>0.0</b>	115	0.0	(100)
Group's total sales	<b><u>1,527,165</u></b>	<b><u>100</u></b>	<b><u>1,410,483</u></b>	<b><u>100</u></b>	<b><u>8.3</u></b>

- Reinforcement and expansion of domestic and overseas market share, and maintenance of rapid growth in the production and sales of leading products. In January to June, the Company has adjusted and expanded the coverage of advantageous infusion solution products in end hospitals, secured end customers and focused on exploring target hospitals. These measures have driven rapid growth in the sales volume of soft bag infusion solutions (in particular, double-outlet soft bag infusion solutions) and therapeutic infusion solutions with higher gross profit margins, and ensured sustained growth in product sales and operating results. Increasing marketing efforts and further enhancement of product structure have resulted in steady growth in production capacity. In the first half of the year, output of the Company's intravenous infusion solutions amounted to 434 million bottles (bags), representing an increase of 24% as compared to last year, of which, output of 191 million soft bag products recorded an increase of 48% as compared to last year, further demonstrating the economies of scale of such business. Profit for the first half of the year has maintained at an industry-leading level. The further increase in gross profit margin of intravenous infusion solution business has continued to provide strong support and boost to the development of the Group as a whole.

Meanwhile, we have participated in the centralized drug procurement tenders in some provinces, districts or cities such as Jilin, Ningxia, Gansu, Qinghai and Guangdong in the PRC, where our leading products such as soft bags have enjoyed prominent advantages in winning bids. This has supported our further reinforcement and expansion of domestic markets.

Infusion solution export and processing business has continued to grow. Apart from expanding South-east Asian markets such as Vietnam and Cambodia, we have opened up international markets through various channels. In the first half of the year, export sales recorded a period-to-period increase of 25.6%. Export business has become an important component of the Company's operation.

In respect of Xi'an Lijun, both antibiotic and generic drug businesses have performed unsatisfactorily. Sales of Lijunsha and Paiqi, two major antibiotic products, recorded a decrease of 18.0% and 16.3% respectively as compared to the corresponding period last year. Sales of Dobesilate, a cardiovascular product, and Lixiding have seen obvious growth of 20.3% and 12.4% respectively. In general, Xi'an Lijun recorded a decrease in sales of 7.0%.

2. Commencement of production and achievement of efficiency of key projects, and manifestation of investment effect. As at the end of June, construction works for infrastructure in the relocation and upgrade project of headquarters in the High-tech Development Zone, a project of strategic importance to the development of the Company, has been completed. Six infusion solution production lines developed in the early stages passed the national 2010 GMP certification and obtained certifications in March 2014, and currently have commenced full production and operation. We are now stepping up the development of subsequent soft bag infusion solution production lines and modernization of Chinese medicine projects, and expect to apply for national GMP certification in the fourth quarter. Our market advantage will be further consolidated and strengthened with the creation of new production scale.
3. Effective product development. The Company has implemented a motivating project responsibility system to promote innovation. In the first half of the year, 49 production permits for specifications add-in, alteration and packaging materials were obtained for new 100ml Pediatric Electrolyte Supplements Injection, 3,000ml Mannitol Injection, and 1,000ml Sodium Lactate Ringer's Injection. Meanwhile, 15 certificates or notices of authorization of invention, utility model and design patents were obtained for a conveying system of easily-dampened powdered raw materials, vertical PVC infusion bags, an interface structure for plastic infusion bags, a dual-chamber bag for infusion, a plastic ampoule for injection, and interface connectors for plastic infusion bags, etc. Fruitful innovative results were achieved. At the same time, the cooperation platform for production, teaching and research jointly established by schools of pharmacy of

universities such as Tianjin University and Zhejiang University under the support of the Company has commenced scientific research projects such as “Demonstration Project for Industrialization of Safety Control Technology of Soft-packaging Infusion” and “Development and Industrialization of Balanced Salt Solution”, in a bid to enhance the R&D and industrialization levels of superior products.

Looking into the second half of 2014, the pharmaceutical industry in the PRC will be full of opportunities and challenges for development. Centralized commencement of drug procurement tenders in various regions and stringent measures against unfair competition in the industry will create a better market environment for the inelastic demand and systematic competition of drugs. Falling prices, re-allocation of corporate interests and lack of innovation will remain constraints and problems to the development of pharmaceutical companies. The Company will address these difficulties by leveraging its advantages in scale and brand to further improve its product structure. The Company will expand and refine its product market by capitalizing on market consolidation, to achieve steady and rapid growth in sales and profit.

### **3. PROSPECTS FOR DEVELOPMENT**

#### **(1) Market-oriented to capture market opportunities, and increase market share and efficiency**

We will continue to coordinate domestic and overseas markets, implement differentiating marketing measures, do our best in the bidding and market development of superior products such as soft bags (including double soft tube and double hard tube), vertical soft infusion bags and rinsing solutions, and further increase the profitability of infusion solution products, with the aim of maintaining the superiority of soft bag products in the industry.

We will continue to focus on the development of international markets, and commence foreign trade and processing businesses through various channels and forms by participating in important international trade fairs, and applying for international product registration and certification, in order to maintain a growth rate of over 30% for our foreign trade business.

**(2) Acceleration of R&D to develop featured products and innovative technologies for sustainable business growth by leveraging on our advantages**

We will continue to promote the coordinated development of intravenous infusion solutions and oral preparations, and expedite the implementation of product development projects to maintain our core competitive edge. We will strive to obtain clinical approval for Arbidol Hydrochloride Dry Suspension and 10 production permits for supplementary application for Compound Mannitol Injection and packaging materials for infusion drugs in this year. Meanwhile, we will increase new product reserve and improve product structure to boost business transformation and upgrade and new product industrialization, thereby strengthening our market competitiveness, and expanding our product variety and profit stream.

**(3) Acceleration of project construction to provide support and protection for the Group's continuous development**

In the second half of the year, the two production lines for double-outlet soft bag infusion solutions under construction in the relocation and upgrade project of headquarters in the High-tech Development Zone has entered equipment commissioning phase. Conditions for certification application are expected to be fulfilled by the end of August, and GMP certification is expected to be completed in the fourth quarter. Projects on modernization of Chinese medicine extraction and upgrade of 1,000ml and 500ml PP plastic bottle infusion solution production lines are currently underway. We are working on equipment installation and commissioning. To pass the national GMP certification in this year, we must maintain infusion solution production volume, quality and efficiency and consolidate our leading position in the industry by accelerating new project construction and old production line upgrade.

In short, in the face of tough market conditions, the Company will adopt a new mindset, make active response and use all means to expand the sales market, in order to improve the quality and efficiency of the Company's operation, and generate satisfactory returns for investors. We are confident in the future development of the Company.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

(All amounts in HK\$ unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	HK\$'000	HK\$'000
Revenue	3	1,527,165	1,410,483
Cost of sales		<u>(799,237)</u>	<u>(780,636)</u>
<b>Gross profit</b>		<b>727,928</b>	<b>629,847</b>
Other gains — net		16,368	51,365
Selling and marketing costs		(193,084)	(245,369)
General and administrative expenses		<u>(155,865)</u>	<u>(140,937)</u>
<b>Operating profit</b>	7	<b>395,347</b>	<b>294,906</b>
Finance income		2,653	611
Finance costs		<u>(36,985)</u>	<u>(24,022)</u>
Finance costs — net		<u>(34,332)</u>	<u>(23,411)</u>
<b>Profit before income tax</b>		<b>361,015</b>	<b>271,495</b>
Income tax expenses	8	<u>(60,377)</u>	<u>(44,161)</u>
<b>Profit for the period</b>		<b><u>300,638</u></b>	<b><u>227,334</u></b>
<b>Other comprehensive income:</b>			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		<u>(26,603)</u>	<u>46,645</u>
<b>Total comprehensive income for the period</b>		<b><u>274,035</u></b>	<b><u>273,979</u></b>

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit attributable to:</b>			
— Equity holders of the Company		<b>300,627</b>	227,330
— Non-controlling interests		<b>11</b>	4
		<u><b>300,638</b></u>	<u>227,334</u>
<b>Total comprehensive income attributable to:</b>			
— Equity holders of the Company		<b>274,030</b>	273,964
— Non-controlling interests		<b>5</b>	15
		<u><b>274,035</b></u>	<u>273,979</u>
<b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)</b>			
— Basic	<i>10</i>	<u><b>0.1026</b></u>	<u>0.0776</u>
— Diluted	<i>10</i>	<u><b>0.1022</b></u>	<u>0.0773</u>
<b>Dividends (proposed)</b>	<i>9</i>	<u><b>177,236</b></u>	<u>58,599</u>

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

(All amounts in HK\$ unless otherwise stated)

		Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		377,915	386,295
Property, plant and equipment		2,779,992	2,438,408
Intangible assets		325,369	322,995
Deferred income tax assets		21,790	25,050
Available-for-sale financial assets		162	164
		<u>3,505,228</u>	<u>3,172,912</u>
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories		361,489	404,911
Trade and bills receivables	6	1,020,757	934,193
Financial assets at fair value through profit or loss		5,003	—
Prepayments, deposits and other receivables		169,325	144,913
Pledged bank deposits		7,535	90,051
Cash and cash equivalents		468,166	336,928
		<u>2,032,275</u>	<u>1,910,996</u>
<b>Total current assets</b>			
		<u>5,537,503</u>	<u>5,083,908</u>
<b>Total assets</b>			
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		65,885	65,405
Reserves			
— Proposed dividend		177,236	58,599
— Others	5	2,874,179	2,742,265
		<u>3,117,300</u>	<u>2,866,269</u>
<b>Non-controlling interests</b>			
		<u>632</u>	<u>627</u>
<b>Total equity</b>			
		<u>3,117,932</u>	<u>2,866,896</u>



		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2014</b>	2013
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		684,163	455,019
Deferred income tax liabilities		30,839	26,905
Deferred revenue		16,861	10,863
Post-employment benefit obligation		10,880	9,289
		<u>742,743</u>	<u>502,076</u>
<b>Total non-current liabilities</b>			
<b>Current liabilities</b>			
Trade and bills payables	6	403,881	490,461
Advanced receipts from customers		25,546	36,503
Dividends payable		7,269	—
Accruals and other payables		468,070	415,371
Borrowings		746,898	732,774
Income tax payable		25,164	39,827
		<u>1,676,828</u>	<u>1,714,936</u>
<b>Total current liabilities</b>			
<b>Total liabilities</b>			
		<u>2,419,571</u>	<u>2,217,012</u>
<b>Total equity and liabilities</b>			
		<u>5,537,503</u>	<u>5,083,908</u>
<b>Net current assets</b>			
		<u>355,447</u>	<u>196,060</u>
<b>Total assets less current liabilities</b>			
		<u>3,860,675</u>	<u>3,368,972</u>

## **SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

*For the six months ended 30 June 2014*

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

### **1 Basis of preparation**

This interim condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

### **2 Accounting policies**

Except as described below, the accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2013, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2014:

HKAS 36 (Amendment) “Impairment of assets” is effective for annual periods beginning on or after 1 January 2014. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

HK (IFRIC) Interpretation 21 “Levies” is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of HKAS 37 “Provisions, contingent liabilities and contingent assets”. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group’s operating results, financial position or comprehensive income.

**(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group**

		<b>Effective for annual periods beginning on or after</b>
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
Amendment to HKAS 39	Financial Instruments: Recognition and measurement, on novation of derivatives	1 January 2014
HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for investment entities	1 January 2014

**(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2014 and have not been early adopted by the Group:**

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKAS 19	Defined benefit plans	1 July 2014
HKFRS 2	Share-based payment	1 July 2014
HKFRS 3	Business combinations	1 July 2014
HKFRS 8	Operating segments	1 July 2014
HKFRS 13	Fair value measurement	1 July 2014
HKAS 16	Property, plant and equipment	1 July 2014
HKAS 24	Related party disclosures	1 July 2014
HKAS 37	Provisions, contingent liabilities and contingent assets	1 July 2014
HKAS 38	Intangible assets	1 July 2014
HKAS 39	Financial instruments — Recognition and measurement	1 July 2014
HKAS 40	Investment property	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11	Joint arrangements	1 January 2016
Amendments to HKAS 16	Property, plant and equipment	1 January 2016
Amendments to HKAS 38	Intangible assets	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

None of these new and amended standards is expected to have a significant effect on the interim condensed consolidated financial statements of the Group.

### 3 Segment information

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

The Board considers the business from a product perspective, which assesses the performance of two product segments, namely intravenous infusion solution and others and antibiotics and others.

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

Unallocated operating loss mainly represents corporate expenses.

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

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate dividends payable.

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

	<b>Unaudited</b>			
	<b>Intravenous infusion solution and others <i>HK\$'000</i></b>	<b>Antibiotics and others <i>HK\$'000</i></b>	<b>Unallocated <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Six months ended 30 June 2014</b>				
<b>Revenue</b>	<u>996,435</u>	<u>530,730</u>	<u>—</u>	<u>1,527,165</u>
<b>Operating profit/(loss) segment results</b>	349,673	54,094	(8,420)	395,347
Finance income	2,509	144	—	2,653
Finance costs	<u>(29,446)</u>	<u>(7,017)</u>	<u>(522)</u>	<u>(36,985)</u>
<b>Profit/(loss) before income tax</b>	322,736	47,221	(8,942)	361,015
Income tax expenses	<u>(47,800)</u>	<u>(6,547)</u>	<u>(6,030)</u>	<u>(60,377)</u>
<b>Profit/(loss) for the period</b>	<u>274,936</u>	<u>40,674</u>	<u>(14,972)</u>	<u>300,638</u>

**Unaudited**

	<b>Intravenous infusion solution and others <i>HK\$'000</i></b>	<b>Antibiotics and others <i>HK\$'000</i></b>	<b>Unallocated <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Six months ended 30 June 2013</b>				
<b>Revenue</b>	<u>840,110</u>	<u>570,373</u>	<u>—</u>	<u>1,410,483</u>
<b>Operating profit/(loss) segment results</b>	261,295	42,510	(8,899)	294,906
Finance income	469	142	—	611
Finance costs	<u>(17,230)</u>	<u>(6,792)</u>	<u>—</u>	<u>(24,022)</u>
<b>Profit/(loss) before income tax</b>	244,534	35,860	(8,899)	271,495
Income tax expenses	<u>(38,181)</u>	<u>(5,980)</u>	<u>—</u>	<u>(44,161)</u>
<b>Profit/(loss) for the period</b>	<u>206,353</u>	<u>29,880</u>	<u>(8,899)</u>	<u>227,334</u>

**Unaudited**

	<b>Intravenous infusion solution and others <i>HK\$'000</i></b>	<b>Antibiotics and others <i>HK\$'000</i></b>	<b>Unallocated <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>As at 30 June 2014</b>				
<b>Total assets</b>	<u>1,503,648</u>	<u>3,927,111</u>	<u>106,744</u>	<u>5,537,503</u>
<b>Total liabilities</b>	<u>555,328</u>	<u>1,844,132</u>	<u>20,111</u>	<u>2,419,571</u>

**Audited**

	<b>Intravenous infusion solution and others <i>HK\$'000</i></b>	<b>Antibiotics and others <i>HK\$'000</i></b>	<b>Unallocated <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>As at 31 December 2013</b>				
<b>Total assets</b>	<u>3,654,107</u>	<u>1,427,048</u>	<u>2,753</u>	<u>5,083,908</u>
<b>Total liabilities</b>	<u>1,740,963</u>	<u>474,576</u>	<u>1,473</u>	<u>2,217,012</u>

#### 4 Trade and bills receivables

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables based on revenue recognition date is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Within 3 months	825,836	776,761
4 to 6 months	128,473	77,251
7 to 12 months	38,138	51,176
1 to 2 years	31,010	29,557
2 to 3 years	21,897	22,477
More than 3 years	9,330	9,570
	<b>1,054,684</b>	966,792
Less: Provision for impairment	<b>(33,927)</b>	(32,599)
	<b>1,020,757</b>	934,193

#### 5 Reserves

	Unaudited						Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Share-based payment reserve HK\$'000	Currency translation differences HK\$'000	Retained earnings HK\$'000	
At 1 January 2014	1,262,730	176,819	273,859	15,530	161,407	910,519	2,800,864
Dividends paid to equity holders of the Company	—	—	—	—	—	(58,599)	(58,599)
Profit for the period	—	—	—	—	—	300,627	300,627
Issuance of shares — exercise of share options (a)	35,120	—	—	—	—	—	35,120
Currency translation differences	—	—	(2,644)	—	(23,953)	—	(26,597)
At 30 June 2014	<u>1,297,850</u>	<u>176,819</u>	<u>271,215</u>	<u>15,530</u>	<u>137,454</u>	<u>1,152,547</u>	<u>3,051,415</u>
At 1 January 2013	1,262,730	176,819	234,220	15,530	86,094	647,694	2,423,087
Dividends paid to equity holders of the Company	—	—	—	—	—	(58,599)	(58,599)
Profit for the period	—	—	—	—	—	227,330	227,330
Currency translation differences	—	—	4,290	—	42,344	—	46,634
At 30 June 2013	<u>1,262,730</u>	<u>176,819</u>	<u>238,510</u>	<u>15,530</u>	<u>128,438</u>	<u>816,425</u>	<u>2,638,452</u>

- (a) On 24 June 2014, 24,000,000 share options (being adjusted from 20,000,000 share options as a result of the issuance of bonus shares on 16 October 2012) were exercised. Options exercised in 2014 which resulted in 24,000,000 shares being issued at HK\$0.02 each. The related weighted average share price at the time of exercise was HK\$1.48 per share (being adjusted from HK\$1.78 as a result of issuance of bonus share on 16 October 2012). The total cash received is HK\$35,600,000.

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

	<b>Average Exercise Price</b> <i>(HK\$ per share)</i>	<b>Number of Options</b> <i>(thousands)</i>
<b>At 1 January 2013</b>	1.48	48,000
Exercised	<u>1.48</u>	<u>(24,000)</u>
<b>At 30 June 2013</b>	<u>1.48</u>	<u>24,000</u>

Details of share options outstanding at 30 June 2014 are as follows:

<b>Exercisable from</b>	<b>Expiry date</b>	<b>Average Exercise Price</b> <i>(HK\$ per share)</i>	<b>Number of Options</b> <i>(thousands)</i>
<b>3 May 2012</b>	2 May 2015	<u>1.48</u>	<u>24,000</u>

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

## 6 Trade and bills payables

Ageing analysis of trade and bills payables is as follows:

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within 3 months	<b>252,533</b>	384,934
4 to 6 months	<b>73,246</b>	72,974
7 to 12 months	<b>60,467</b>	25,464
1 to 3 years	<b>15,439</b>	4,996
More than 3 years	<b>2,196</b>	2,093
	<u><b>403,881</b></u>	<u><b>490,461</b></u>

## 7 Operating profit

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fair value (gains)/losses on other financial assets at fair value through profit or loss	<b>(645)</b>	432
Gain on disposal of property, plant and equipment	<b>(2,674)</b>	(132)
Government grants	<b>(16,844)</b>	(52,311)
Depreciation of property, plant and equipment	<b>83,819</b>	67,834
(Reversal of)/provision for decline in value of inventories	<b>(3,461)</b>	121
Provision for impairment of receivables	<b>385</b>	4,779
Amortisation of intangible assets	<b>2,546</b>	2,009
Amortisation of land use rights	<b>4,742</b>	3,407
Foreign exchange loss/(gain), net	<b>6,215</b>	(558)
	<u><b>6,215</b></u>	<u><b>(558)</b></u>

## 8 Income tax expenses

The Company is incorporated in the Cayman Islands as an exempted company and, accordingly, is exempted from payment of the Cayman Islands income tax. The Company had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, the subsidiary of the Company, is subject to Hong Kong profits tax at the rate of 16.5% (2013: 16.5%) on its estimated assessable profit.

All subsidiaries of the Company established and operate in PRC are subject to Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.



Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No. 4 Pharmaceutical Co., Ltd. have been recognised as High and New Tech Enterprises in 2012. According to the tax incentives rules of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High and New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

According to the PRC CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

The amounts of taxation charged to the interim condensed consolidated statement of comprehensive income:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current income tax	<b>53,160</b>	45,464
Deferred income tax	<b>7,217</b>	(1,303)
	<b><u>60,377</u></b>	<b><u>44,161</u></b>

## 9 Dividends

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividend, proposed, of HK6 cents (six months ended 30 June 2013: HK2 cents) per ordinary share	<b><u>177,236</u></b>	<b><u>58,599</u></b>

At a meeting held on 28 August 2014, the directors recommended the payment of a dividend of HK6 cents per ordinary share, totalling HK\$177,236,000 in respect of the six months ended 30 June 2014. The proposed dividend has not been reflected as a dividend payable in this condensed consolidated interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

## 10 Earnings per share

### (a) Basic

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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	<u>300,627</u>	<u>227,330</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,930,721</u>	<u>2,929,925</u>
Basic earnings per share (HK\$ per share)	<u><u>0.1026</u></u>	<u><u>0.0776</u></u>

### (b) Diluted

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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Profit used to determine diluted earnings per share	<u>300,627</u>	<u>227,330</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,930,721</u>	<u>2,929,925</u>
Adjustment for share options (thousands)	<u>11,497</u>	<u>11,500</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>2,942,218</u>	<u>2,941,425</u>
Diluted earnings per share (HK\$ per share)	<u><u>0.1022</u></u>	<u><u>0.0773</u></u>

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

As at 30 June 2014, the cash and cash equivalents aggregated to HK\$468,166,000 (31 December 2013: HK\$336,928,000), comprising HK\$304,159,000 (31 December 2013: HK\$247,913,000) of cash and cash equivalents denominated in Renminbi (“RMB”), HK\$137,934,000 (31 December 2013: HK\$86,060,000) in Hong Kong dollars and HK\$26,073,000 (31 December 2013: HK\$2,955,000) in other currencies.

As at 30 June 2014, the Group has pledged bank deposits amounting to HK\$7,535,000 (31 December 2013: HK\$90,051,000) as guarantee of banks borrowings, bills payable and letters of credit facilities.

The carrying amounts of the borrowings amounting to HK\$1,431,061,000 as at 30 June 2014 (31 December 2013: HK\$1,187,793,000), comprising HK\$1,095,822,000 (31 December 2013: HK\$896,494,000) of borrowings denominated in RMB, HK\$120,000,000 (31 December 2013: HK\$162,920,000) in Hong Kong dollars and HK\$215,239,000 (31 December 2013: HK\$128,379,000) in other currencies.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital) increased from 22.9% as at 31 December 2013 to 30.6% as at 30 June 2014.

Current ratio (defined as current assets divided by current liabilities) increased from 1.11 as at 31 December 2013 to 1.21 as at 30 June 2014.

## **FOREIGN EXCHANGE RISK**

Majority of the Group’s businesses are operated in the PRC and are denominated in RMB and Hong Kong dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited. Hence, no financial instrument for hedging was employed. The Group is closely monitoring the financial market and would consider appropriate measures if required.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2014.

## **PLEDGE OF ASSETS**

As at 30 June 2014, the net book amount of the Group's land use right of HK\$70,995,000 (31 December 2013: HK\$72,647,000), the net book amount of the Group's buildings, plant and machineries of HK\$392,019,000 (31 December 2013: HK\$418,769,000) and bank deposits of HK\$7,535,000 (31 December 2013: HK\$90,051,000) were pledged as collateral for the Group's bank borrowings and bills payable.

## **CONTINGENT LIABILITIES**

As at 30 June 2014, the Group did not have any significant contingent liabilities.

## **INTERIM DIVIDEND**

The Directors resolved to pay on 15 November 2014 an interim dividend and a special dividend of HK3 cents and HK3 cents per share (amounting to a total of approximately HK\$177.2 million) respectively for the six months ended 30 June 2014 to the shareholders named in the register of members of the Company on 10 September 2014.

## **EXCHANGE RATE**

As at 2014 and 2013, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2013	0.81085
30 June 2013	0.79655
31 December 2013	0.78623
30 June 2014	0.79375

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

The Company has not redeemed any of its Shares during the period. 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 2014.

## **SHARE OPTION SCHEME**

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Old Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of the offer for grant of options, subject to the terms and conditions of Old Share Option Scheme and any conditions of grant as may be stipulated by the Board.

As at 7 August 2008, the Company granted 100,000,000 share options under the Old Share Option Scheme, representing about 4.93% of the issued share capital as at the date immediately before the options were granted to directors and senior management of the Group. The exercise price was HK\$0.7. As at 4 October 2010, all of the 100,000,000 share options granted were exercised.

As at 3 May 2012, the Company granted 40,000,000 share options (being adjusted to 48,000,000 share options as a result of the Bonus Issue on 16 October 2012) under Old Share Option Scheme, representing about 1.64% of the issued share capital as at the date immediately before the options were granted to directors of the Group. The exercise price was HK\$1.78 (being adjusted to HK\$1.48 as a result of the Bonus Issue on 16 October 2012).

As at 30 June 2014, 48,000,000 share options were granted under Old Share Option Scheme and 24,000,000 share options were exercised on 24 June 2014 that 24,000,000 ordinary shares of the Company has been issued. Another 24,000,000 share options were remained outstanding.

During the year of 2012, the Board proposed the termination of Old Share Option Scheme and the adoption of the existing share option scheme (“Existing Share Option Scheme”) which were approved by an ordinary resolution passed by the shareholders at the EGM held on 20 September 2012. The operation of Old Share Option Scheme was terminated such that no further share option could thereafter be offered under Old Share Option Scheme but in all other respects the provisions of Old Share Option Scheme shall remain in full force and effect.

Existing Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the “Scheme Period”) unless terminated earlier by shareholders in general meeting. The purpose of Existing Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Existing Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Existing Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Pursuant to Existing Share Option Scheme, the offer for grant of options (“Offer”) must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK\$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Existing Share Option Scheme and any conditions of grant as may be stipulated by the Board.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Existing Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Existing Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the “Scheme Mandate”). The Scheme Mandate may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the issued share capital of the Company at the date of the shareholders’ approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Existing Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders’ approval is obtained under the terms of Existing Share Option Scheme.

As at 30 June 2014, no option has been granted under Existing Share Option Scheme since its adoption.

#### **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the date of this announcement, being 28 August 2014, and at all times during the six months ended 30 June 2014.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Board has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions during the six months ended 30 June 2014.

#### **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the Corporate Governance Code (formerly the “Code on Corporate Governance Practices”) (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) including those revised code provisions which became effective on 1 April 2012. During the period, the Company has complied with all applicable provisions of CG Code for their respective applicable periods with deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Qu Jiguang, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Qu will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

## **INDEPENDENT REVIEW OF AUDITORS**

The Interim Financial Information for the six months ended 30 June 2014 has been reviewed by the auditor of the Company, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed and approved the Interim Financial Information for the six months ended 30 June 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 11 September 2014 to Monday, 15 September 2014 (both days inclusive), during which period, no transfer of shares will be registered.

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 of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 10 September 2014.

## **PUBLICATION OF THE INTERIM REPORT**

The 2014 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on Hong Kong Exchanges and Clearing Limited's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.lijun.com.hk](http://www.lijun.com.hk)) in due course.

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

By order of the Board

**Qu Jiguang**

*Chairman*

Hong Kong, 28 August 2014

*As at the date of this announcement, the Board comprises Mr. Qu Jiguang, Mr. Wang Xianjun and Mr. Duan Wei as executive Directors, and Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai as independent non-executive Directors.*