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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 2009

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 2009.

1. RESULTS AND DIVIDEND PAYMENT

The Group’s recorded a sales income of HK\$866,347,000 for the period, representing an increase of 2.4% as compared to the corresponding period last year. The Group achieved profit attributable to equity holders for the period of HK\$112,179,000, representing an increase of 9.9% as compared to the full year of last year.

The Board proposed an interim dividend of HK\$0.02 per share, representing approximately HK\$40,540,000 (interim dividend of HK\$0.006 per share, representing approximately HK\$12,162,000 was distributed in last year).

2. BUSINESS REVIEW

During the period, competition of pharmaceutical market remained very intense. Augmented by the impact of global financial crisis, the overall operating environment of pharmaceutical industry was still enduring difficulties. However, the introduction of the State's new medical system reform during the period, the commencement of escalating investments in hygienic medical industry had precipitated sound development opportunities to the pharmaceutical industry. By leveraging on these opportunities during the period, the Company promoted its sales, focused on costs reduction and expenses control and had paved our way to overcome the operating difficulties entwining us since the second half year of last year, and revamping to a healthy and stable development.

	For the six months ended 30 June				
	2009		2008		Change %
	Sales <i>HK\$'000</i>	Percentage of sales %	Sales <i>HK\$'000</i>	Percentage of sales %	
Intravenous Infusion Solution	320,173	37.0	278,779	33.0	
(Including: PP Plastic Bottle Infusion Solution	133,090	15.4	105,650	12.5	26.0
Non-PVC Soft Bag Infusion Solution)	70,621	8.2	46,730	5.5	51.1
Antibiotics	369,878	42.7	420,361	49.6	(12.0)
(Including: Lijunsha Paiqi)	218,026	25.2	265,194	31.3	(17.8)
	47,951	5.5	55,125	6.5	(13.0)
Non-antibiotics finished medicines	127,024	14.7	103,522	12.2	22.7
(Including: Dobesilate Lixiding	34,223	4.0	25,076	3.0	36.5
	12,776	1.5	10,266	1.2	24.4
Sales of bulk pharmaceuticals	49,272	5.6	43,673	5.2	12.8
Group's total sales	866,347	100	846,335	100	2.4

(1) Further strengthening of Intravenous Infusion Solution business

With the commercial production of two new Infusion Solution production lines, our Intravenous Infusion Solution and its underlying businesses continued to sustain growth. During the period, sales income of HK\$320,173,000 was recorded, growth by 14.8% as compared to the corresponding period last year. With economies of scale further emerged, operating profit was HK\$79,522,000, a growth of 7.4%. With further rationalization of product portfolio, in terms of packaging, sales volume of PP Plastic Bottle and Non-PVC Soft Bag products increased to 70% from 61% in corresponding period last year; and in terms of pharmaceutical products, sales ratio of Amino Acid and therapeutic infusion products increased to 50% from 48% in corresponding period last year.

During the period, export volume and the number of exported countries on intravenous infusions products had increased gradually. Currently, the Company has 15 infusions categories applying product registrations in 28 countries and regions in Asia and South America, laying a solid foundation for the future export business of the Company.

The Company is recognized by the State as the only PRC enterprise undertaking research on「十一五」國家科技支撐計劃重點項目－藥用新輔料臨床前安全性評價及藥品與包裝材料的相容性安全研究課題. This has symbolized the frontier positioning of the Company in PRC in the aspect of the research and development of Intravenous Infusions safety.

(2) Revival of antibiotics business

After going through the market adjustment in the second half year of last year, our antibiotics business has revived in the first half of the year. During the period, sales of Lijunsha reached HK\$218,026,000, a decrease of 17.8% as compared to the corresponding period last year, sales of Paiqi was HK\$47,951,000, a drop of 13.0% as compared to the corresponding period last year. Sales of antibiotics segment in general was down by 12.0% as compared to the corresponding period last year. Despite a drop in sales of antibiotics segment when compared with last year, however, significant improvement in its operation was seen when compared with the second half year's performance of last year. Profit for the first half of the year was satisfactory. We believe, with further market adjustments and continuous improvement of this business, the dropping momentum of antibiotics business will diminish significantly during the year.

(3) Sustained growth of key new products and general medicines

By benefiting from the State's new medical system reform, the Company is leveraging on the strength of its brand name in enhancing the in-depth development of its sales network, with its key new products and general medicines achieving better sales performance. Of which, sales of Dobesilate was HK\$34,223,000, an increase of 36.5% as compared to the corresponding period last year; sales of Lixiding products was HK\$12,776,000, a growth of 24.4% as compared to the corresponding period last year. Overall sales of general medicines were HK\$127,024,000, an increase of 22.7% as compared to the corresponding period last year.

(4) Strengthening the development and industrialized production of new products

During the period, approval of pharmaceutical supplemental application in respect of the validity period extension of new influenza drugs like Paracetamol, Loratadine and Pseudoephedrine Sulfate Sustained Release Tablet and production permit of Compound Glycyrrhizic Acid Tablet, clinical approval of Loratadine Soft Capsule, and approval of 2,000ml Mannitol Injection were obtained. New products like Azithromycin Suspension, Duanxueliu Soft Capsule and Compound Glycyrrhizic Acid Tablet were distributed into the market one after another.

In the first half of the year, the newly constructed research and quality inspection centres for new products had commenced their operation one after another. The building up of the research and academic platform of infusions products is strengthening further. At the moment, the Company has either reached co-operation agreements or intentions with various domestic tertiary institutes and research organizations to establish laboratories. Talents and projects that fulfills the criteria set by the Company will be converged together effectively with technologies and products innovativeness being enhanced continuously.

3. DEVELOPMENT OUTLOOK

The operating environment of pharmaceutical industry does not expect any significant change in the second half of the year. However, the Company will still be facing intense market competition, and at the same time, the State's medical system reform shall also bring sound development opportunities to the pharmaceutical industry. The Company will fully leverage on the strengths of its brand name, premium quality and sales network to facilitate our product sales volume further. We shall continue to implement measures to reduce costs, control expenses and to further improve the operational quality of the Company.

(1) On-going rationalization of Intravenous Infusion Solution business

The production capacity of PP Plastic Bottle and Non-PVC Soft Bag products will be escalated through expanding its production capacity. We will further increase the product sales ratios of Amino Acid and therapeutic infusion products like Mannitol, Hydroxyethyl Starch and Dextran, develop new products and improve overall gross margins. More efforts will be spent in increasing our overseas registrations in order to maintain our growth in foreign trade.

(2) Strive to improve the operational quality of antibiotics, and to promote their new developments

In the second half year, our key focus is to promote the market distribution of new OTC new products like 20s new Lijunsha tablet, new influenza drug “Haogan” and Lijungai. At the same time, we will further enhance the promotion and sales efforts of Lijunsha among sub-dealers and end users mainly at region and county level, implement the integration of end-user resources rationalization of Lijunsha products, tackle the market issue of Lijunsha pricing, and strive to ensure meeting our planned annual targets.

(3) Gradual formation of our new strengths in general medicines and key new products

The State has recently announced the Essential Drug List, expanded the coverage of basic medical protection and improved the standard of basic medical protection. The Group has 81 products included in the Essential Drug List which are covered by medical insurance, of which all possess relatively higher growing potential. The Group will strive for meeting the fixed sourcing and unified distribution criteria of all areas for those enlisted products, boost the sales in new growing markets as a result of new medical reform of general medicines. We will increase our efforts in promoting those new products like Dobesilate, Lixiding and Arbidol which have almost reached its critical mass, and to strive for higher sales breakthrough. By leveraging on the Lijun brand name and its network, we will keep on introducing new products to capture this market.

In general, despite facing lots of challenges in our operation in the second half year, however, we have full confidence in meeting our targets for the year with the 2009 Group’s operating results better than or significantly out-performing last year.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

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

	<i>Note</i>	Six months ended 30 June	
		2009	2008
		Unaudited	Unaudited
Revenue	3	866,347	846,335
Cost of sales		<u>(443,739)</u>	<u>(441,466)</u>
Gross profit		422,608	404,869
Other gains – net		8,111	11,869
Selling and marketing costs		(199,770)	(183,630)
General and administrative expenses		<u>(83,371)</u>	<u>(83,905)</u>
Operating profit	7	147,578	149,203
Finance income		297	6,788
Finance costs		<u>(20,523)</u>	<u>(24,214)</u>
Finance costs – net		<u>(20,226)</u>	<u>(17,426)</u>
Profit before income tax		127,352	131,777
Income tax expenses	8	<u>(15,131)</u>	<u>(15,390)</u>
Profit for the period		<u>112,221</u>	<u>116,387</u>
Other comprehensive income:			
Currency translation differences		<u>581</u>	<u>81,985</u>
Total comprehensive income for the period		<u>112,802</u>	<u>198,372</u>
Profit attributable to:			
– Equity holders of the Company		112,179	116,390
– Minority interest		<u>42</u>	<u>(3)</u>
		<u>112,221</u>	<u>116,387</u>

		Six months ended 30 June	
		2009	2008
	<i>Note</i>	Unaudited	Unaudited
Total comprehensive income attributable to:			
– Equity holders of the Company		112,760	198,323
– Minority interest		42	49
		<u>112,802</u>	<u>198,372</u>
Dividends	<i>9</i>	<u>40,540</u>	<u>12,162</u>
Earnings per share for profit attributable to the equity holders of the Company during the period			
<i>(expressed in HK\$ per share)</i>			
– Basic	<i>10</i>	<u>0.0553</u>	<u>0.0574</u>
– Diluted	<i>10</i>	<u>0.0553</u>	<u>0.0567</u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

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

		30 June 2009	31 December 2008
	<i>Note</i>	Unaudited	Audited
ASSETS			
Non-current assets			
Land use rights		211,496	214,036
Property, plant and equipment		818,276	792,855
Intangible assets		557,961	566,440
Deferred income tax assets		14,060	15,626
Available-for-sale financial assets		146	146
Total non-current assets		1,601,939	1,589,103
Current assets			
Inventories		213,550	225,783
Trade and bill receivables	4	419,170	414,103
Financial assets at fair value through profit or loss		1,617	2,608
Prepayments, deposits and other receivables		58,850	44,165
Pledged bank deposits		8,662	16,232
Cash and cash equivalents		168,500	219,453
Total current assets		870,349	922,344
Total assets		2,472,288	2,511,447
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		46,979	46,959
Reserves	5	1,413,052	1,321,885
		1,460,031	1,368,844
Minority interest		987	945
Total equity		1,461,018	1,369,789

		30 June	31 December
		2009	2008
	<i>Note</i>	Unaudited	Audited
LIABILITIES			
Non-current liabilities			
Borrowings		70,188	62,428
Convertible bonds	<i>11</i>	113,897	132,720
Deferred income tax liabilities		35,468	37,019
Deferred revenue		4,651	4,649
Long-term payables		16,230	15,661
		<hr/>	<hr/>
Total non-current liabilities		240,434	252,477
		<hr/>	<hr/>
Current liabilities			
Trade and bill payables	<i>6</i>	161,355	143,046
Advanced receipts from customers		21,717	15,978
Accruals and other payables		102,402	195,876
Income tax payable		9,750	6,317
Borrowings		475,612	527,964
		<hr/>	<hr/>
Total current liabilities		770,836	889,181
		<hr/>	<hr/>
Total liabilities		1,011,270	1,141,658
		<hr/>	<hr/>
Total equity and liabilities		2,472,288	2,511,447
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		99,513	33,163
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		1,701,452	1,622,266
		<hr/> <hr/>	<hr/> <hr/>

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with 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 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009:

- HKAS 1 (revised), “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one statement: the statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. It is not expected to have a material impact on the number of reportable segments as well as the manner in which the segments are reported.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive directors that make strategic decisions.

Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to a previous acquisition within the intravenous infusion solution segment remains in that segment.

- Amendment to HKFRS 7, “Financial instruments: disclosures”. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009 but are not currently relevant for the Group.

- HKAS 23 (amendment), “Borrowing costs”.
- HKFRS 2 (amendment), “Share-based payment”.
- HKFRS 32 (amendment), “Financial instruments: presentation”.
- HK(IFRIC) 9 (amendment), “Reassessment of embedded derivatives” and HKAS 39 (amendment), “Financial instruments: Recognition and measurement”.
- HK(IFRIC) 13, “Customer loyalty programmes”.

- HK(IFRIC) 15, “Agreements for the construction of real estate”.
- HK(IFRIC) 16, “Hedges of a net investment in a foreign operation”.
- HKAS 39 (amendment), “Financial instruments: Recognition and measurement”.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- Amendment to HKAS 39, “Financial instruments: Recognition and measurement” on eligible hedged items, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it does not have any hedged items.
- HKFRS 3 (revised), “Business combinations” and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates” and HKAS 31, “Interests in joint ventures”, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding consolidation on the Group. The Group does not have any joint ventures and associates.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) to all business combinations from 1 January 2010.

- HK(IFRIC) 17, “Distributions of non-cash assets to owners”, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- HK(IFRIC) 18, “Transfers of assets from customers”, effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

HKICPA’s improvements to HKFRS published in May 2009:

- Amendment to HKFRS 2 “Share-based payments”, effective for periods beginning on or after 1 July 2009. This clarification confirms that HKFRS 3 (revised) does not change the scope of HKFRS 2. This is not currently relevant for the Group as it has not issued equity instruments for business combination under common control or for the formation of a joint venture.

- Amendment to HKFRS 5 “Non-current Assets held for sale and discontinued operations”, effective for periods beginning on or after 1 January 2010. Disclosures in standards other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs specifically require disclosures for them. Additional disclosures about these assets or discontinued operations may be necessary to comply with the general requirements of HKAS 1 “Presentation of financial statements”. The Group will apply HKFRS 5 (amendment) from 1 January 2010.
- Amendment to HKFRS 8 “Operating segments”, effective for periods beginning on or after 1 January 2010. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision-maker. The Group will apply HKFRS 8 (amendment) from 1 January 2010.
- Amendment to HKAS 1 “Presentation of financial statements”, effective for periods beginning on or after 1 January 2010. Current/non-current classification of the liability component of convertible instruments is not affected by the holder’s option which will result in the settlement by the issuance of equity instruments. The Group will apply HKAS 1 (amendment) from 1 January 2010.
- Amendment to HKAS 7 “Statement of cash flows”, effective for periods beginning on or after 1 January 2010. Only expenditures that result in a recognised asset are eligible for classification as investing activities. The Group will apply HKAS 7 (amendment) from 1 January 2010.
- Amendment to HKAS 17 “Leases”, effective for periods beginning on or after 1 January 2010. The Group will apply HKAS 17 (amendment) from 1 January 2010.
- Amendment to HKAS 36 “Impairment of assets”, effective for periods beginning on or after 1 January 2010. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in HKFRS 8. The amendment does not have any impact on the Group’s financial statements.
- Amendment to HKAS 38 “Intangible assets”, effective for periods beginning on or after 1 July 2009. This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item. The Group will apply HKAS 38 (amendment) from 1 January 2010.

- Amendment to HKAS 39 “Financial instruments: recognition and measurement”, effective for periods beginning on or after 1 January 2010. Loan prepayment penalties are treated as closely related embedded derivatives, only if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. In addition, the scope exemption to business combination contracts only applies to forward contracts that are firmly committed to be completed between the acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date. Therefore option contracts are not in this scope exemption. This amendment also clarifies that in a cash flow hedge of a forecast transaction that a reclassification of the gains or losses on the hedged item from equity to profit or loss is made during the period the hedged forecast cash flows affect profit or loss. This is not currently relevant for the Group as it does not have such financial instruments.
- Amendment to HK(IFRIC) 9 “Reassessment of embedded derivatives”, effective for periods beginning on or after 1 July 2009. This amendment aligns the scope of HK(IFRIC) 9 to the scope of HKFRS 3 (revised): the interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a common control combination or the formation of a joint venture. This is not currently relevant for the Group as it does not have such derivatives.
- Amendment to HK(IFRIC) 16 “Hedges of a net investment in a foreign operation”, effective for periods beginning on or after 1 July 2009. This amendment removes the restriction on the entity that can hold hedging instruments in a net investment hedge. The hedging instruments can be held by the foreign operation that itself is being hedged. This is not currently relevant for the Group as it does not have such hedge.

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

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

Unallocated operating loss mainly contributed by corporate expenses.

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

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise deferred income tax liabilities, corporate borrowings and convertible bonds.

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

	Unaudited			Total
	Intravenous infusion solution	Antibiotics and others	Unallocated	
Six months ended 30 June 2009				
Revenue	<u>320,173</u>	<u>546,174</u>	<u>–</u>	<u>866,347</u>
Operating profit/(loss) segment results	79,522	70,134	(2,078)	147,578
Finance income	85	201	11	297
Finance costs	<u>(8,078)</u>	<u>(4,760)</u>	<u>(7,685)</u>	<u>(20,523)</u>
Profit before income tax	71,529	65,575	(9,752)	127,352
Income tax expenses	<u>(5,158)</u>	<u>(9,906)</u>	<u>(67)</u>	<u>(15,131)</u>
Profit for the period	<u>66,371</u>	<u>55,669</u>	<u>(9,819)</u>	<u>112,221</u>
Six months ended 30 June 2008				
Revenue	<u>278,779</u>	<u>567,556</u>	<u>–</u>	<u>846,335</u>
Operating profit/(loss) segment results	74,073	85,712	(10,582)	149,203
Finance income	172	294	6,322	6,788
Finance costs	<u>(5,023)</u>	<u>(9,240)</u>	<u>(9,951)</u>	<u>(24,214)</u>
Profit before income tax	69,222	76,766	(14,211)	131,777
Income tax expenses	<u>(3,370)</u>	<u>(12,020)</u>	<u>–</u>	<u>(15,390)</u>
Profit for the period	<u>65,852</u>	<u>64,746</u>	<u>(14,211)</u>	<u>116,387</u>

	Unaudited			
	Intravenous infusion solution	Antibiotics and others	Unallocated	Total
As at 30 June 2009				
Total assets	<u>1,409,875</u>	<u>1,043,633</u>	<u>18,780</u>	<u>2,472,288</u>
Total liabilities	<u>369,776</u>	<u>408,941</u>	<u>232,553</u>	<u>1,011,270</u>

	Audited			
	Intravenous infusion solution	Antibiotics and others	Unallocated	Total
As at 31 December 2008				
Total assets	<u>1,367,351</u>	<u>1,090,135</u>	<u>53,961</u>	<u>2,511,447</u>
Total liabilities	<u>364,093</u>	<u>479,095</u>	<u>298,470</u>	<u>1,141,658</u>

4 Trade and bill receivables

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

	30 June 2009 Unaudited	31 December 2008 Audited
Within 3 months	361,859	317,027
4 to 6 months	34,464	68,229
7 to 12 months	14,757	33,018
1 to 2 years	29,013	16,547
2 to 3 years	1,795	1,351
More than 3 years	<u>597</u>	<u>696</u>
	442,485	436,868
Less: Provision for impairment	<u>(23,315)</u>	<u>(22,765)</u>
	<u>419,170</u>	<u>414,103</u>

5 Reserves

	Unaudited						
	Share premium	Capital reserve	Equity component of convertible bonds	Statutory reserves	Share-based payment reserve	Retained earnings	Total
At 1 January 2009	737,532	175,266	7,028	115,077	15,284	271,698	1,321,885
Redemption of convertible bonds	–	–	(1,303)	–	–	–	(1,303)
Dividends paid to equity holders of the Company	–	–	–	–	–	(20,270)	(20,270)
Profit for the period	–	–	–	–	–	112,179	112,179
Currency translation differences	301	72	2	47	6	133	561
At 30 June 2009	<u>737,833</u>	<u>175,338</u>	<u>5,727</u>	<u>115,124</u>	<u>15,290</u>	<u>363,740</u>	<u>1,413,052</u>
At 1 January 2008	688,092	165,067	8,840	94,880	–	194,337	1,151,216
Issue of shares							
– Conversion of convertible bonds	6,544	–	(763)	–	–	–	5,781
Dividends paid to equity holders of the Company	–	–	–	–	–	(12,162)	(12,162)
Profit for the period	–	–	–	–	–	116,390	116,390
Currency translation differences	45,178	10,741	529	6,174	–	16,434	79,056
At 30 June 2008	<u>739,814</u>	<u>175,808</u>	<u>8,606</u>	<u>101,054</u>	<u>–</u>	<u>314,999</u>	<u>1,340,281</u>

6 Trade and bill payables

Ageing analysis of trade and bill payables is as follows:

	30 June 2009 Unaudited	31 December 2008 Audited
Within 3 months	112,320	108,658
4 to 6 months	28,918	18,929
7 to 12 months	11,827	6,648
1 to 3 years	6,440	6,234
More than 3 years	1,850	2,577
	<u>161,355</u>	<u>143,046</u>

7 Operating profit

The following items have been charged/(credited) to the operating profit during the six months ended 30 June 2009 and 2008:

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
Gain on disposal of property, plant and equipment	115	2,099
Depreciation of property, plant and equipment	34,550	27,352
(Reversal of)/Provision for impairment of inventories	(5,901)	4,144
Provision for impairment of receivables	1,094	2,208
Amortisation of intangible assets	8,803	1,912
Amortisation of land use rights	2,627	810
Foreign exchange (gain)/loss, net	(132)	6,137
	<u>(132)</u>	<u>6,137</u>

8 Income taxes

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 Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

Subsidiaries established and operated in Mainland China are subject to Mainland China Enterprise Income Tax ("EIT") at a rate of 25% for the six months ended 30 June 2009 (six months ended 30 June 2008: 25%). Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") and Shijiazhuang No. 4 Pharmaceutical Co., Ltd., ("No. 4 Pharm") being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. The applicable tax rate for Xi'an Lijun and No. 4 Pharm is 12.5% (six months ended 30 June 2008: 12.5%).

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
Current income tax	14,849	14,774
Deferred income tax	282	616
	<u>15,131</u>	<u>15,390</u>

9 Dividends

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
Interim dividend, declared, of HK2 cents (six months ended 30 June 2008: HK0.6 cent) per ordinary share	<u>40,540</u>	<u>12,162</u>

At a meeting held on 28 August 2009, the directors recommend the payment of an interim dividend of HK2 cents per ordinary share, totaling HK\$40,540,000 in respect of the six months ended 30 June 2009. 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 2009.

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately HK\$112,179,000 (six months ended 30 June 2008: HK\$116,390,000) by the weighted average number of 2,027,003,000 (six months ended 30 June 2008: 2,026,677,000) ordinary shares in issue during the period.

Diluted earnings per share is calculated after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only two categories of dilutive potential ordinary shares: convertible bonds and share options. For convertible bonds, it is assumed that they have been converted into ordinary shares since the beginning of the year or date of issuance (whichever is later) and, consequently the net profit is adjusted to eliminate the relevant interest expense together with the related tax effect. For outstanding share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares in the relevant periods) based on the market values 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.

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	112,179	116,390
Interest expense on convertible bonds	6,393	8,143
	<u>118,572</u>	<u>124,533</u>
Adjusted profit attributable to equity holders of the Company	118,572	124,533
Weighted average number of ordinary shares in issue (<i>thousands</i>)	2,027,003	2,026,677
Adjustments for assumed conversion of convertible bonds (<i>thousands</i>)	110,265	171,523
Adjustment for share options (<i>thousands</i>)	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	2,137,268	2,198,200
Recalculated earnings per share (<i>HK\$ per share</i>)	0.0555	0.0567
Diluted earnings per share as reflected on the comprehensive income statement (<i>HK\$ per share</i>)	<u>0.0553</u>	<u>0.0567</u>

During the six months ended 30 June 2009, the dilutive effect of convertible bonds and share options are anti-dilutive.

11 Convertible bonds

On 30 May 2007, the Company issued zero-coupon convertible bonds with total principal amount of RMB160,000,000, to be matured on 30 May 2010. The conversion price was initially set as HK\$4.15 per share at a fixed exchange rate of HK\$1 to RMB0.98339, and such conversion price has been adjusted to HK\$0.83 per share effective from 28 August 2007 as a consequence of the Company's share sub-division. Unless previously redeemed or converted, the Company has to redeem the convertible bonds at 121.1547% of their principal amount on the maturity date.

The fair values of the liability component and the equity conversion component were determined upon issuance of the convertible bonds. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, was included in reserves.

Liability component on 30 May 2007 was calculated as follows:

Face value of convertible bonds issued on 30 May 2007	162,702
Equity component	<u>(11,230)</u>
Liability component on 30 May 2007	151,472
Less: Cost of issue	<u>(2,164)</u>
	<u><u>149,308</u></u>

The amount of convertible bonds recognised in the balance sheet is calculated as follows:

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
Beginning of the period	132,720	151,135
Interest expense	6,393	8,143
Converted into ordinary shares	–	(5,928)
Redemption	(25,261)	–
Exchange differences	45	9,906
End of the period	<u>113,897</u>	<u>163,256</u>

On 8 June 2009, the Company redeemed and thereafter cancelled convertible bonds with a principal amount of RMB20,000,000 (equivalent to HK\$22,679,000) for a consideration of HK\$21,200,000.

The fair value of the liability component of the convertible bonds outstanding at 30 June 2009 amounted to HK\$115,827,000 (30 June 2008: HK\$161,211,000), based on market interest rate of 3.9% (30 June 2008: 6.0%) per annum.

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 2009, the cash and cash equivalents aggregated to HK\$168,500,000 (31 December 2008: HK\$219,453,000), comprising HK\$13,125,000 (31 December 2008: HK\$40,510,000) of cash and cash equivalents denominated in Hong Kong dollars, HK\$154,472,000 (31 December 2008: HK\$176,030,000) in RMB and HK\$903,000 (31 December 2008: HK\$2,913,000) in other currencies.

As at 30 June 2009, the Group has restricted deposits amounting to HK\$8,662,000 (31 December 2008: HK\$16,232,000) as guarantee of the bank borrowings.

The carrying amounts of the borrowings (including convertible bonds) amounting to HK\$659,697,000 (31 December 2008: HK\$723,112,000) as at 30 June 2009, comprising HK\$117,000,000 (31 December 2008: HK\$159,500,000) of borrowings denominated in Hong Kong dollars and HK\$542,697,000 (31 December 2008: HK\$563,612,000) in RMB.

Gearing ratio (defined as bank borrowings and convertible bonds less pledged bank deposits and cash and cash equivalents divided by total equity less minority interests) decreased from 35.6% as at 31 December 2008 to 33.0% as at 30 June 2009.

Current ratio (defined as current assets divided by current liabilities) increased from 1.04 as at 31 December 2008 to 1.13 as at 30 June 2009.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and HK dollar. The Group is of the opinion that its exposure to foreign exchange rate risk is limited.

PLEDGE OF ASSETS

As at 30 June 2009, the Group's restricted deposits of HK\$8,547,000 and land use rights, property, plant and equipment with the net book amount of approximately HK\$65,562,000 and HK\$237,495,000 respectively were pledged as collateral for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 30 June 2009, the Group did not have any significant contingent liabilities.

INTERIM DIVIDEND

The Directors resolved to pay on 6 November 2009 an interim dividend of HK\$0.02 per share (amounting to a total of approximately HK\$40,540,000) for the six months ended 30 June 2009 to the shareholders named in the register of members of the Company on 9 October 2009. The interim dividend represents a payout rate of 36.1% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2009.

EXCHANGE RATE

As at 2009 and 2008, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2008	0.93638
30 June 2008	0.87917
31 December 2008	0.88189
30 June 2009	0.88153

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 2009.

SHARE OPTION SCHEME

The Group has adopted a share option scheme, which will remain in force for 3 years up to August 2011.

In August 2008, share options were granted to certain directors and employees to subscribe 100,000,000 shares in the Company at an exercise price of HK\$0.7 per share, exercisable from August 2008 to August 2011.

Share options outstanding have the following expiry date and exercise price:

Expiry date	Exercise price per share HK\$	As at	
		30 June 2009 Unaudited '000	31 December 2008 Audited '000
6 August 2011	<u>0.7</u>	<u>100,000</u>	<u>100,000</u>

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 2009, and at all times during the six months ended 30 June 2009.

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 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 to the Listing Rules. During the six months ended 30 June 2009, the Company has complied with the applicable Code Provisions set out in the CG Code.

INDEPENDENT REVIEW OF AUDITORS

The Interim Financial Information for the six months ended 30 June 2009 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 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 October, 2009 to Friday, 9 October, 2009 (both days 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 1806-1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 6 October, 2009.

PUBLICATION OF THE INTERIM REPORT

The 2009 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) and the Company's website (www.lijun.com.hk) in due course.

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

On behalf of the Board

Wu Qin

Chairman

Hong Kong, 28 August 2009

As at the date of this announcement, the Board comprises Mr. Wu Qin, Mr. Qu Jiguang, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xianjun, Mr. Duan Wei, Ms. Zhang Guifu, Mr. Bao Leyuan and Ms. Gao Shuping as executive Directors, Mr. Liu Zhiyong as non-executive Director, and Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai as independent non-executive Directors.