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 2007

On behalf of the board (the "Board") of directors (the "Directors") of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007.

1. RESULTS AND DIVIDEND PAYMENT

During the period, the revenue of the Group amounted to RMB 451,976,000, representing an increase of 1% as compared to the corresponding period last year. Although Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") began to pay the Enterprise Income Tax with a 50% reduction this year, profit attributable to shareholders of the Company increased by 24.1% to approximately RMB 51,655,000 as compared to the corresponding period last year. On 29 August 2007, each share of the Company with par value of HK$0.1 be subdivided into 5 shares with par value of HK$0.02 each. Upon the completion date of the share subdivision, total issued number of shares of the Company was 2,007,400,670 (31 December 2006: 290,500,000). The Board resolved the payment of interim dividend of approximately HK$20,074,000 in aggregate, representing a dividend per share of HK$0.01.

2. BUSINESS REVIEW

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

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

(1) The market of antibiotics products reflected stable development

Sales of our core product, Lijunsha, was RMB 219,901,000 during the period, representing a growth of 3.7% as compared to the corresponding period last year. The sales of Paiqi product amounted to RMB 46,071,000, representing a growth of 3.3%. Affected by a number of factors such as price reduction, the sales of other antibiotics products including Cephalosporins products decreased by 16.4% as compared to the corresponding period last year. The overall sales of antibiotics products still accounted for 71.9% of the total revenue of the Company.

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

With the advantages of Lijun's brand and quality, the non-antibiotic finished medicine products remained on the track of agreeable growth against the background of the expanding rural and city community markets. The total sales of non-antibiotic finished medicine products amounted to RMB 86,604,000, representing an increase of 11.3% as compared to the corresponding period last year.

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

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

3. OUTLOOK

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

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

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

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

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

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

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

OTC pharmaceutical products and healthcare products form the growth points in the Company's future development. The Company has invested approximately RMB 80,000,000 to establish the production line for modern soft capsules and modern oral solution. However, due to the regulation changes of the entire medicine industry by the State, the approval licenses of several new products could not be obtained on time. The Company expects that the production line for modern soft capsules will commence operation within the year while the establishment of the production line for modern oral solution will be completed within the year.

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

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

(5) Acquisition and mergers are still our development strategy

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

(All amounts in RMB thousands unless otherwise stated)

		Six months ended 30 June	
		2007	2006
	Note	**Unaudited**	Unaudited
Revenue	*3*	**451,976**	447,581
Cost of sales		**(226,072)**	(213,403)
Gross profit		**225,904**	234,178
Other gain — net	*7*	**21,701**	176
Selling and marketing costs		**(117,745)**	(121,996)
General and administrative expenses		**(62,746)**	(61,215)
Operating profit	*7*	**67,114**	51,143
Finance income		**1,341**	3,182
Finance costs		**(7,101)**	(3,294)
Finance costs — net		**(5,760)**	(112)
Profit before income tax		**61,354**	51,031
Income tax expenses	*8*	**(9,699)**	273
Profit for the half year		**51,655**	51,304
Attributable to:			
— Equity holders of the Company		**51,655**	41,615
— Minority interest		**—**	9,689
		51,655	51,304
Earnings per share for profit attributable to the equity holders of the Company *(expressed in RMB per share)*			
— Basic	*9*	**0.035**	0.029
— Diluted	*9*	**0.032**	0.029
Dividends	*10*	**19,560**	20,933

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Note	**30 June 2007 Unaudited**	31 December 2006 Audited
ASSETS			
Non-current assets			
Land use rights		**64,565**	6,945
Property, plant and equipment		**635,616**	359,943
Intangible assets	*11*	**517,478**	6,983
Deferred income tax assets		**8,610**	8,402
Available-for-sale financial assets		**3,662**	609
Total non-current assets		**1,229,931**	382,882
Current assets			
Inventories		**135,494**	85,485
Trade and bills receivables	*4*	**310,273**	215,867
Financial assets at fair value through profit or loss		**5,775**	—
Prepayments, deposits and other receivables		**50,287**	47,039
Restricted cash		**37,443**	16,248
Cash and cash equivalents		**149,035**	167,387
Total current assets		**688,307**	532,026
Total assets		**1,918,238**	914,908
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**40,948**	30,229
Reserves	*5*	**1,020,342**	472,088
		1,061,290	502,317
Minority interest		**670**	—
Total equity		**1,061,960**	502,317

	Note	30 June 2007 Unaudited	31 December 2006 Audited
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings		**29,488**	28,131
Long-term payables		**12,941**	12,713
Convertible bonds	*12*	**148,034**	—
Deferred income tax liabilities	*11, 12*	**40,106**	—
Total non-current liabilities		**230,569**	40,844
Current liabilities			
Trade and bills payables	*6*	**139,478**	52,192
Deposits and advance receipts from customers		**16,306**	10,348
Accruals and other payables		**102,925**	96,649
Income tax payable		**21,892**	14,628
Dividend payable		**11,061**	2,582
Amount due to minority shareholder of a subsidiary		**11,742**	11,742
Short-term bank borrowings		**288,064**	169,188
Current portion of long-term bank borrowings		**30,590**	12,057
Current portion of long-term payables		**3,651**	2,361
Total current liabilities		**625,709**	371,747
Total liabilities		**856,278**	412,591
Total equity and liabilities		**1,918,238**	914,908
Net current assets		**62,598**	160,279
Total assets less current liabilities		**1,292,529**	543,161

1. Basis of preparation

This unaudited condensed consolidated interim financial information for the half year ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2. Accounting policies

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

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

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

- HK(IFRIC)-Int 8, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies", effective for annual periods beginning on or after 1 March 2006;

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

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

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

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

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

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

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

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

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 PRC. Substantially all of the Group's assets were located in the PRC. Accordingly, no analysis of segment information is presented.

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

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

5. Reserves

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

	Unaudited						
	Share premium	Capital reserve *(Note a)*	Equity component of convertible bonds *(Note 18)*	Statutory reserves *(Note b)*	Exchange difference	Retained earnings	Total
At 1 January 2007	121,239	156,893	—	70,989	(2,652)	125,619	472,088
Profit for the half year	—	—	—	—	—	51,655	51,655
Exchange difference	—	—	—	—	(850)	—	(850)
Dividends	—	—	—	—	—	(20,077)	(20,077)
Issue of convertible bonds *(Note 12)*	—	—	9,073	—	—	—	9,073
Dilution of minority interest of a subsidiary	—	(670)	—	—	—	—	(670)
Issue of share capital	509,123	—	—	—	—	—	509,123
At 30 June 2007	630,362	156,223	9,073	70,989	(3,502)	157,197	1,020,342

(a) Capital reserve

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

(b) Statutory reserves

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

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

6. Trade and bills payables

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

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

7. Operating profit

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

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

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 2007.

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

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

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

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB51,655,000 by the weighted average number of 1,458,577,350 ordinary shares in issue (after subdivision (Note 13(b))) during the period.

The comparative basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company of RMB 41,615,000 by an aggregate of 1,452,500,000 shares (after subdivision (Note 13(b))).

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

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

10. Dividends

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

11. Business combination

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

Details of net assets acquired and goodwill are as follows:

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

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

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

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

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

12. Convertible bonds

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

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

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

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

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

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

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

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

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

13. Events after the balance sheet date

(a) Conversion of convertible bonds

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

(b) Share subdivision of share capital

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

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

INTEREST RATE AND FOREIGN EXCHANGE RISK

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

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

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

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year. Save as the allotment and issuance of 110,000,000 shares of the Company with par value of HK$0.1 in relation to acquisition of New Orient, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2007.

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

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

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

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

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

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

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

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

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

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

ZERO COUPON CONVERTIBLE BONDS DUE 2010 ("BONDS")

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

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

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

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

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

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 for Securities Transactions by Directors of Listed Issuers 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 ended 30 June 2007.

INDEPENDENT REVIEW OF AUDITORS

The Interim Financial Information for the six months ended 30 June 2007 has been reviewed by the auditors of the Company, PricewaterhouseCoopers.

AUDIT COMMITTEE

The Audit Committee has reviewed and approved the Interim Financial Information for the six months ended 30 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 3 October 2007 to Friday, 5 October 2007 (both day inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s), must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1806-07, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 2 October 2007.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2007 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 Mr. Wu Qin, Mr Qu Jiguang, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xian Jun, Mr. Duan Wei, Mr. Wang Zhizhong and Ms. Zhang Guifu 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.

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, 10 September 2007