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

Interim Report

2008

CONTENTS

CORPORATE INFORMATION

STOCK CODE
2005

EXECUTIVE DIRECTORS
Mr. Wu Qin *(Chairman)*
Mr. Qu Jiguang
Mr. Huang Chao
Mr. Xie Yunfeng
Ms. Sun Xinglai
Mr. Wang Xianjun
Mr. Duan Wei
Mr. Wang Zhizhong
Ms. Zhang Guifu
Mr. Bao Leyuan

NON-EXECUTIVE DIRECTOR
Mr. Liu Zhiyong

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY
Mr. Sze Wing Kin, Pierre

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Office 2809, 28th Floor, Office Tower
Convention Plaza, 1 Harbour Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES
Mr. Wang Xianjun
Ms. Sun Xinglai

AUDIT COMMITTEE
Mr. Chow Kwok Wai *(Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE
Mr. Leung Chong Shun *(Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fund Services (Cayman) Limited
P.O. Box 705, Butterfield House,
68 Fort Street
George Town, Grand Cayman,
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1806-1807, 18th Floor
Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS
Bank of China
Bank of China (Hong Kong) Ltd.
Industrial and Commercial Bank of China
China Construction Bank
China Construction Bank (Asia)
China Merchants Bank
China Minsheng Banking Corp., Ltd.
CITIC Industrial Bank
Hang Seng Bank
CITIC Ka Wah Bank
Bank of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Shijiazhuang City Commercial Bank

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW
DLA Piper Hong Kong

AUDITORS
PricewaterhouseCoopers

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008.

1. RESULTS AND DIVIDEND PAYMENT

During the period, there was a fairly significant growth in the Group's sales income, profit before income tax and profit attributable to equity holders as compared to the corresponding period last year, among which the Group's sales income recorded HK$846,335,000 for the period, representing an increase of 85.3% as compared to the corresponding period last year. The Group achieved a profit before income tax of HK$131,777,000, representing an increase of 112.5% as compared to the corresponding period last year, and a profit attributable to equity holders for the period of HK$116,390,000, representing an increase of 123.0% as compared to the corresponding period last year.

The Board proposed an interim dividend of HK$0.006 per share, representing approximately HK$12,162,000.

2. BUSINESS REVIEW

During the period, the macro economic environment of China was complex and changing quickly. The prices of energy fuel, raw materials and supplementary materials have been increasing sharply due to inflation. To address the severely competitive market, the Group took advantage of the State's medical system reform, the growth in the size of the domestic pharmaceutical market and the recovery of the industry, utilized the synergy from the acquisition of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma") and took various measures and made great effort, and thus achieved significant increase in the sales income, profit before income tax and profit attributable to equity holders for the period.

(1) Growth in sales of core products

First, the sales of highly competitive product Lijunsha amounted to HK$265,194,000 for the period, representing a growth of 19.3% as compared to the corresponding period last year. In particular, the sales of Lijunsha granules, which are popular in the pediatric market, increased by 36.1% for the period as compared to the corresponding period last year, amounting to HK$36,483,000.

Second, Shijiazhuang No. 4 Pharma stepped into a new phase of rapid growth at the completion of another two production lines. The sales income and profit before income tax of Shijiazhuang No.4 Pharma increased significantly by 46.1% and 87.2% respectively for the period as compared to the corresponding period last year. While retaining its production and marketing prominence in basic and therapeutic infusion products, Shijiazhuang No. 4 Pharma further optimized its product portfolio in light of the initial scale of a new product series including Amino Acid Infusions, Rinsing Physiological Saline Solutions and Pediatric Infusion Solutions and so on. The Group kept expanding its soft-package infusion products market share amongst the country's large and medium-sized hospitals, and thus further consolidated its medium-to-high end market positioning. The sales volumes of PP Plastic Bottle and Non-PVC Soft Bag increased by 49.0% and 150.0% respectively as compared to the corresponding period last year.

Third, as a result of the State's efforts to gradually establish new rural medical systems and the improvement of medical systems in urban communities, the sales of large-scale branded preparations and large-scale basic medicines saw relatively fast growth. The sales of Dobesilate and Lixiding increased by 43.0% and 51.0% respectively as compared to the corresponding period last year. The sales of Cephalosporin Antibiotics increased by 16.0% as compared to the corresponding period last year. The sales of Paiqi series increased by 18.0% as compared to the corresponding period last year. Both sales of general medicines and collection of payments increased as compared to the corresponding period last year. In addition, export of bulk pharmaceuticals increased by 39.6% as compared to the corresponding period last year.

Fourth, the Group just began to kick off its OTC and health care product lines. The Group completed the process of contacting distributors for the product of Lijungai, which enjoyed a sound market image as "a calcium product with dual technology of nano chelate – for its absorption-friendly nature". During the period, the sales of OTC pharmaceutical products and healthcare products of the Group for the period increased by nearly 3 times as compared to the corresponding period last year.

(2) Major technological upgrading projects progressed well

First, the Group has introduced from abroad a high-standard modern production line for soft capsules and oral solutions. The production line has completed, and undertaken its pilot operation. In the second half of the year, the Group will launch Shengtai oral solutions and Zijin soft capsule on the market.

Second, the main structure of the Group's Innovative Preparation Building (application has been filed to make it the research center for innovative preparation engineering technologies of Shaanxi Province) in Xi'an has been completed.

Third, the R&D center, pilot production lines and animal experiment center in Shijiazhuang have been completed successfully. The pilot production lines have entered into the debug phase. The annual output of PP Plastic Bottle will reach 150 million once Phase I comes into operation, further strengthening the Group's leading position in the field of soft-packed infusion solutions in China.

(3) The development and industrialized production of new products accelerated

During the period, the Group has obtained production approval for Lijun Zijin soft capsule, which is featured as an "immunity enhancing and spot removing" product with dual efficacy. The Group has also acquired production approvals for both Duanxueliu soft capsules and Azithromycin Suspension, with the latter targeting the pediatric market as a new member of Paiqi series. Moreover, after being approved, the following products, including Gliclazide II, Ambroxol Hydrochloride Orally Disintegrating Tablets and Sodium Chloride Physiological Solutions, have been produced and distributed into markets. The trial production of three new products consisting of Ganciclovir Lyophilized Powder for Injection, Diammonium Glycyrrhizinate Injection and Cefepime Hydrochloride Powder for Injection is completed. They are expected to be distributed into markets in the second half year.

3. DEVELOPMENT OUTLOOK

Looking into the second half of 2008, the Group will continue to take the opportunities of China's pharmaceutical market recovery, with synergy of both scale and branding effect of the Group to further expand the market.

(1) To ensure steady growth of existing antibiotics products

In the second half of the year, the Group will take corresponding measures to integrate the market of Lijunsha. The Group will reinforce advertisement and propaganda efforts among sub-dealers, end users, urban communities and rural areas so as to maintain steady increase in sales volume. Meanwhile, the Group will carefully plan a second development of Lijunsha. In light of Lijunsha capsule's advantage as an exclusive drug form in China and its high bioavailability, the Group will address both markets of hospitals and drugstores in a brand new pattern with efforts to boost its sales. The Group will improve the taste and packaging of Lijunsha granules, and launch its new specifically-designed-for-children version whilst taking advantage of its mounting sales momentum so as to maintain a rapid growth. The Group will strengthen the research and development of the pediatric market in relation to Paiqi series' new member, i.e. Azithromycin Suspension. The Group will speed up the launch of new product series of Cephalosporin Antibiotics and Cefepime, to generate a new growth point for the second half year and next year.

(2) Fast growth of intravenous infusion segment

The results of the Group's new PP Plastic Bottle production line will be reflected in the second half year. Whilst sustaining its fast growing momentum of intravenous infusions, the Group will further expand its market shares in regard to therapeutic infusion solutions and soft-packed infusions (including PP Plastic Bottle and Non-PVC Soft Bag). The Group will strengthen its promotion of new products such as Fluconazole Infusions (Tablets), Dextran Infusions, Amino Acid Infusions, Ozagrel and Sodium Chloride Injections and so on, so as to form a new driving force. On the other hand, international intravenous infusions market is yet to develop by way of more overseas registrations especially on pediatric infusion products, and widened export channels to keep a healthy momentum of foreign trade.

(3) To achieve breakthrough in sales volume of OTC and healthcare products

In the second half of the year, the Group will take advantage of the strong sales momentum of prescription Dobesilate to make an elaborate marketing plan for OTC Dobesilate, forming a new pivot for the Group's future profit. The Group employs consultants from marketing and sales professionals association for marketing campaigns of new OTC and healthcare products including Lijungai, Zijin soft capsules, and Shengtai oral solutions. On condition of high standards and strict screening and selection process, the Group will establish and frequently educate or train a solid team of young talents with high calibers for marketing of OTC and healthcare products. By way of carpet promotion and innovative propaganda, the Group strives to make breakthroughs on the following new products, with special selling point, such as Ambroxol Hydrochloride Orally Disintegrating Tablets, Lijungai, Zijin soft capsules, and Shengtai oral solutions.

It is expected that the Group's two pivots including Macrolide Antibiotics and Intravenous Infusions will enjoy continuous growth with popularization of the State's medical insurances, expansion of market size and recovery of China's pharmaceutical industry. The subsequent launch of production lines for modern oral solutions, modern soft capsules and new PP Plastic Bottle infusions, as well as the circulation of a new series of OTC and healthcare products, will all contribute as highlights to the Group's future development and growth. By utilizing its nationwide branding and network advantages, the Group will strive for higher returns for its investors and shareholders.

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

Wu Qin
Chairman

Hong Kong, 16 September 2008

MANAGEMENT DISCUSSION AND ANALYSIS

SALES

The Group's total sales increased from HK$456,756,000 for the corresponding period last year by 85.3% to HK$846,335,000 for the six months ended 30 June 2008.

	For the six months ended 30 June				
	2008		2007		
	Sales	**Percentage of sales**	Sales	Percentage of sales	Change
	HK$'000	***%***	*HK$'000*	*%*	*%*
Antibiotics					
– Lijunsha	**265,194**	**31.3**	222,227	48.7	19.3
– Paiqi	**55,125**	**6.5**	46,558	10.2	18.4
– Other antibiotics finished medicines	**100,042**	**11.8**	59,386	13.0	68.5
Total sales of antibiotics	**420,361**	**49.6**	328,171	71.9	28.1
Intravenous Infusion Solution	**249,298**	**29.5**	–	–	–
Non-antibiotics finished medicines	**103,670**	**12.2**	87,520	19.1	18.5
Sales of bulk pharmaceuticals	**43,673**	**5.2**	40,225	8.8	8.6
Others	**29,333**	**3.5**	840	0.2	3,392.0
Group's total sales	**846,335**	**100**	456,756	100	85.3

ANTIBIOTICS

With the increase in investment by the state in medical system in small-to-medium sized cities and rural areas, and the Group's further developing the distribution network in these areas which shows a continuous growth in demand in good quality pharmaceutical products, for the six months ended 30 June 2008, sales of Lijunsha increased by 19.3% to HK$265,194,000 (30 June 2007: HK$222,227,000), sales of Paiqi increased by 18.4% to HK$55,125,000 (30 June 2007: HK$46,558,000) and sales of other antibiotics finished medicines increased by 68.5% to HK$100,042,000 (30 June 2007: HK$59,386,000). Overall sales of antibiotics finished medicines increased by 28.1% to HK$420,361,000 (30 June 2007: HK$328,171,000).

Following the acquisition of Shijiazhuang No. 4 Pharma and the contribution from its intravenous infusion solution products, reliance of the Group's sales on antibiotics products was greatly decreased. With the consolidation of sales figures of intravenous infusion solution and other products from Shijiazhuang No.4 Pharma, sales proportion of antibiotics products to total Group's sales decreased from 71.9% for the six months ended 30 June 2007 to 49.6% for the six months ended 30 June 2008, and sales proportion of Lijunsha accounted for only 31.3% of the total Group's sales for the six months ended 30 June 2008, comparing to 48.7% in the same period last year.

INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharma and there were 3 forms of packing in intravenous infusion products, namely Glasses Bottle, PP Plastic Bottle and Non-PVC Soft Bag. As the acquisition of Shijiazhuang No. 4 Pharma was completed at the end of June 2007, the Group didn't consolidate its financial results from January to June 2007 into the consolidated financial statements. Total sales of Shijiazhuang No. 4 Pharma for the six months ended 30 June 2008 was HK$277,503,000, in which sales of intravenous infusion solution products accounted for HK$249,298,000.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep expanding its production capacity in the PP Plastic Bottle and Non-PVC Soft Bag production lines. It is believed that the intravenous infusion solution business will be one of the growth drivers of the Group in the coming years.

NON-ANTIBIOTICS FINISHED MEDICINES

Due to the expanded sales network in small-to-medium sized cities and rural areas and the contribution from similar products sales of Shijiazhuang No. 4 Pharma, sales of the Group's non-antibiotics finished medicines increased by 18.5% to HK$103,670,000 (30 June 2007: HK$87,520,000).

BULK PHARMACEUTICALS

The sales of bulk pharmaceuticals for the six months ended 30 June 2008 amounted to HK$43,673,000, which was similar to that of the corresponding period last year.

COST OF GOODS SOLD AND GROSS PROFIT

With the consolidation of Shijiazhuang No. 4 Pharma, cost of goods sold increased by 93.2% to HK$441,466,000 for the six months ended 30 June 2008 as compared to the corresponding period last year of HK$228,463,000. The cost of direct materials, direct labour and other costs represented approximately 82%, 6% and 12% of the total cost of goods sold respectively, while their comparative percentage for 2007 were 78%, 8% and 14% respectively.

For the six months ended 30 June 2008, the Group recorded a total gross profit of HK$404,869,000. Overall gross profit margin had decreased by 2.2 percentage points to 47.8% for the six months ended 30 June 2008, from 50% for the corresponding period last year.

SELLING AND MARKETING EXPENSES

For the six months ended 30 June 2008, selling and marketing expenses amounted to approximately HK$183,630,000, which mainly consisted of advertising expenses of approximately HK$34,138,000, sales commission of approximately HK$77,530,000, salary expenses of sales and marketing staff and office and rental expenses of approximately HK$38,997,000 and transportation cost of approximately HK$25,384,000.

The increase of 54.3% in selling and marketing expenses for the six months ended 30 June 2008 as compared with that of the corresponding period last year was mainly attributable to the consolidation of selling and marketing expenses of Shijiazhuang No. 4 Pharma after the acquisition.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the six months ended 30 June 2008 was HK$83,905,000, increased by 32.3% as compared to that of the corresponding period last year, mainly attributable to the consolidation of general and administrative expenses of Shijiazhuang No. 4 Pharma after the acquisition.

The general and administrative expenses were mainly comprised of salaries of approximately HK$32,992,000, depreciation and amortisation of approximately HK$12,698,000 and office and rental expenses of approximately HK$6,801,000.

OPERATING PROFIT

For the six months ended 30 June 2008, the Group's operating profit amounted to HK$149,203,000 because of the contribution from Shijiazhuang No. 4 Pharma representing an increase of 120.0% as compared to that of the corresponding period last year, whereas operating profit margin (defined as operating profit divided by total sales) increased from 14.8% to 17.6%.

FINANCE COSTS

The Group's finance costs for the period amounted to HK$24,214,000, of which HK$15,914,000 related to bank borrowings and HK$8,143,000 related to convertible bonds. The increase of HK$17,038,000 in finance costs as compared to that of the corresponding period last year was due to the increase in bank loan and issue of convertible bonds as at 30 May 2007 to finance the acquisition of interest in subsidiaries.

INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") and Shijiazhuang No. 4 Pharma are entitled to a 50% reduction in the enterprise income tax for the years from 2007 to 2009. For the six months ended 30 June 2008, the overall income tax expense amounted HK$15,390,000 (30 June 2007: HK$9,802,000).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company for the six months ended 30 June 2008 increased by 123.0% to HK$116,390,000 while net profit margin (defined as profit attributable to equity holders of the Company for the period divided by total sales) increased to 13.8% from 11.4% for the corresponding period last year.

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 2008, the cash and cash equivalents aggregated to HK$127,134,000 (31 December 2007: HK$98,983,000), comprising HK$28,026,000 (31 December 2007: HK$13,698,000) of cash and cash equivalents denominated in Hong Kong dollars, HK$98,796,000 (31 December 2007: HK$83,989,000) in RMB and HK$312,000 (31 December 2007: HK$1,296,000) in other currencies.

As at 30 June 2008, the Group has restricted deposits amounting to HK$14,262,000 (31 December 2007: HK$42,976,000) as guarantee of the bank borrowings, letter of credits and bank acceptances.

The carrying amounts of the borrowings (including convertible bonds) amounting to HK$575,554,000 (31 December 2007: HK$523,994,000) as at 30 June 2008, comprising HK$145,000,000 (31 December 2007: HK$133,000,000) of borrowings denominated in Hong Kong dollars and HK$430,554,000 (31 December 2007: HK$390,994,000) in RMB.

Gearing ratio (defined as total liabilities divided by total assets) decreased from 42.3% as at 31 December 2007 to 39.7% as at 30 June 2008.

Current ratio (defined as current assets divided by current liabilities) increased from 1.25 as at 31 December 2007 to 1.44 as at 30 June 2008.

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 2008, the Group's restricted deposits of HK$8,488,000 and land use rights, property & plant and machinery & equipment with the net book amount of approximately HK$56,696,000, HK$69,887,000 and HK$62,510,000 respectively were pledged as collateral for the Group's bank borrowings, letter of credits and bank acceptances.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group did not have any material contingent liabilities.

INTERIM DIVIDEND

The Directors resolved to pay on 3 November 2008 an interim dividend of HK$0.006 per share (amounting to a total of approximately HK$12,162,000) for the six months ended 30 June 2008 to the shareholders named in the register of members of the Company on 10 October 2008. The interim dividend represents a payout rate of 10.4% of net profit attributable to the equity holders of the Company for the six months ended 30 June 2008.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the period. Save as the allotment and issuance of 7,351,016 shares of the Company in total due to conversion of convertible bonds issued on 30 May 2007, 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 2008.

SHAANXI LIJUN MODERN CHINESE MEDICINE CO., LTD.

In June 2008, Xi'an Lijun had sold its entire interests of 80.675% in Shaanxi Lijun Modern Chinese Medicine Co., Ltd.. Details are set out in note 16 to the Condensed Consolidated Interim Financial Information.

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, in recognition of their contributions to the Group, to subscribe for the shares. The offer for grant of options ("Offer") must be taken up within 28 days from the date of Offer, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option will be determined at the higher of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval has been obtained pursuant to the conditions set out in the Scheme. The total number of Shares issued and to be issued upon exercise of all options granted under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

As at 7 August 2008, the Company granted 100,000,000 share options, representing about 4.93% of the issued share capital as at the date immediately before the options were granted. The exercise price was HK$0.7. Details are set out in note 20 to the Condensed Consolidated Interim Financial Information.

EMPLOYEES AND REMUNERATION POLICY

The remuneration of the directors is determined by the Board, with reference to the prevailing market practice, the Company's remuneration policy, duties of the Directors and their contributions to the Group.

As at 30 June 2008, the Group had approximately 3,530 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the remuneration policy of employees is based on industry practice.

The remuneration policy of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the six months ended 30 June 2008 was HK$103,097,000.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 30 June 2008, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules once the Shares are listed, were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Beneficial owner	15,420,000	0.76%
Mr. Qu Jiguang	Interest in a controlled corporation *(Note 1)*	552,000,000	27.23%

Notes:

1. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executives of the Company had an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 30 June 2008, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the Shares

Name of Shareholder	Capacity	Number of shares	% of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner	622,175,000	30.69%
CPCL	Beneficial owner	552,000,000	27.23%
Mr. Qu Jiguang *(Note 2)*	Interest of controlled corporation	552,000,000	27.23%
Victory Rainbow Investment Limited	Beneficial owner	291,500,000	14.38%
Grand Ocean Shipping Company Ltd. *(Note 3)*	Interest of controlled corporation	291,500,000	14.38%
Ms. Chen Lin-Dong *(Note 3)*	Interest of controlled corporation	291,500,000	14.38%
Mr. Xu Ming *(Note 3)*	Interest of controlled corporation	291,500,000	14.38%

Notes:

(1) Prime United Industries Limited is held as to about 2.43% by Mr. Wu Qin, an executive Director, as to about 2.41% by Mr. Huang Chao, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 4% by Ms. Han Yamei, a member of the management of Xi'an Lijun and as to about 84.73% by Mr. Wu Qin, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yamei who jointly hold such shares on trust for 4,536 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of Prime United Industries Limited. Xi'an Lijun is a company established in the PRC with limited liability and wholly-owned by the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by Shaanxi Pharmaceutical Company（陝西省醫藥總公司）, a state-owned enterprise under the direct supervision of the Shaanxi Provincial Government.

(2) CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the Shares held by CPCL.

(3) Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia, which in turn is owned as to 50% by Ms. Chen Lin-Dong and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Chen Lin-Dong and Mr. Xu Ming is deemed to be interested in the Shares held by Victory Rainbow Investment Limited.

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 during the period.

The Company has adopted the Model Code 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 the Model Code throughout the six months ended 30 June 2008.

INDEPENDENT REVIEW OF AUDITORS

The Interim Financial Information for the six months ended 30 June 2008 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 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 8 October, 2008 to Friday, 10 October, 2008 (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 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 6 October, 2008 (7 October 2008 is public holiday).

On behalf of the Board
Wu Qin
Chairman

Hong Kong, 16 September 2008

羅兵咸永道會計師事務所

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF
LIJUN INTERNATIONAL PHARMACEUTICAL (HOLDING) CO., LTD.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 22 to 48, which comprises the condensed consolidated balance sheet of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 September 2008

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in HK Dollars ("HK$") thousands unless otherwise stated)

	Note	30 June 2008 Unaudited	31 December 2007 Audited
ASSETS			
Non-current assets			
Land use rights	5	**67,313**	68,032
Property, plant and equipment	5	**732,258**	719,605
Intangible assets	5	**583,881**	550,073
Deferred income tax assets		**12,582**	13,553
Available-for-sale financial assets		**147**	4,303
Other non-current assets		**1,024**	–
Total non-current assets		**1,397,205**	1,355,566
Current assets			
Inventories		**212,844**	190,403
Trade and bills receivables	6	**396,858**	330,806
Financial assets at fair value through profit or loss		**1,160**	493
Prepayments, deposits and other receivables		**151,535**	53,616
Restricted cash		**14,262**	42,976
Cash and cash equivalents		**127,134**	98,983
Total current assets		**903,793**	717,277
Total assets		**2,300,998**	2,072,843
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	7	**40,540**	40,393
Reserves	8	**1,346,845**	1,154,904
		1,387,385	1,195,297
Minority interest		**849**	800
Total equity		**1,388,234**	1,196,097

	Note	30 June 2008 Unaudited	31 December 2007 Audited
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*11*	**61,437**	90,519
Long-term payables	*9*	**17,125**	17,649
Convertible bonds	*17*	**163,256**	151,135
Deferred income tax liabilities		**43,343**	41,999
Total non-current liabilities		**285,161**	301,302
Current liabilities			
Trade and bills payables	*10*	**142,202**	137,933
Deposits and advance receipts from customers		**23,571**	23,367
Accruals and other payables		**79,223**	104,428
Income tax payable		**27,134**	22,366
Short-term bank borrowings	*11*	**280,236**	253,840
Current portion of long-term bank borrowings	*11*	**70,625**	28,500
Current portion of long-term payables	*9*	**4,612**	5,010
Total current liabilities		**627,603**	575,444
Total liabilities		**912,764**	876,746
Total equity and liabilities		**2,300,998**	2,072,843
Net current assets		**276,190**	141,833
Total assets less current liabilities		**1,673,395**	1,497,399

WU QIN — *DIRECTOR*

QU JIGUANG — *DIRECTOR*

The accompanying notes form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

(All amounts in HK$ thousands unless otherwise stated)

		Six months ended 30 June	
		2008	2007
	Note	**Unaudited**	Unaudited
Revenue	*4*	**846,335**	456,756
Cost of sales	*12*	**(441,466)**	(228,463)
Gross profit		**404,869**	228,293
Other gains – net	*4*	**11,869**	21,931
Selling and marketing costs	*12*	**(183,630)**	(118,990)
General and administrative expenses	*12*	**(83,905)**	(63,410)
Operating profit		**149,203**	67,824
Finance income		**6,788**	1,355
Finance costs		**(24,214)**	(7,176)
Finance costs – net		**(17,426)**	(5,821)
Profit before income tax		**131,777**	62,003
Income tax expenses	*13*	**(15,390)**	(9,802)
Profit for the half year		**116,387**	52,201
Attributable to:			
– Equity holders of the Company		**116,390**	52,201
– Minority interest		**(3)**	–
		116,387	52,201
Dividend	*14*	**12,162**	20,074
Earnings per share for profit attributable to the equity holders of the Company *(expressed in HK$ per share)*			
– Basic	*15*	**0.0574**	0.0358
– Diluted	*15*	**0.0567**	0.0323

The accompanying notes form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in HK$ thousands unless otherwise stated)

		Unaudited				
		Attributable to equity holders of the Company				
	Note	Share capital	Reserves	Total	Minority interest	Total equity
Balance at 1 January 2008		40,393	1,154,904	1,195,297	800	1,196,097
Profit for the period		–	116,390	116,390	(3)	116,387
Dividends to equity holders of the Company		–	(12,162)	(12,162)	–	(12,162)
Issue of shares upon conversion of convertible bonds	*7,8*	147	5,781	5,928	–	5,928
Currency translation differences		–	81,932	81,932	52	81,984
Balance at 30 June 2008		40,540	1,346,845	1,387,385	849	1,388,234
Balance at 1 January 2007		29,050	469,894	498,944	–	498,944
Profit for the period		–	52,201	52,201	–	52,201
Issue of shares	*7,8*	11,000	522,500	533,500	–	533,500
Issue of convertible bonds	*17*	–	9,274	9,274	–	9,274
Dilution of minority interest of a subsidiary		–	(688)	(688)	688	–
Dividends to equity holders of the Company		–	(20,335)	(20,335)	–	(20,335)
Currency translation differences		–	16,276	16,276	–	16,276
Balance at 30 June 2007		40,050	1,049,122	1,089,172	688	1,089,860

The accompanying notes form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(All amounts in HK$ thousands unless otherwise stated)

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Cash flows from operating activities – net	**82,703**	31,341
Cash flows used in investing activities – net	**(74,992)**	(164,104)
Cash flows from financing activities – net	**20,440**	119,105
Net increase/(decrease) in cash and cash equivalents	**28,151**	(13,658)
Cash and cash equivalents at 1 January	**98,983**	166,609
Cash and cash equivalents at 30 June	**127,134**	152,951

The accompanying notes form an integral part of this condensed consolidated interim financial information.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in HK$ thousands unless otherwise stated)

1 GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. ("the Company") and its subsidiaries (together, "the Group") are principally engaged in the research, development, manufacture and sale of a wide range of finished medicines and bulk pharmaceuticals through a network of independent retailers and wholesalers. The Group has manufacturing plants in Shaanxi Province and Hebei Province of the People's Republic of China ("PRC") and sells to customers in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands on 28 September 2004. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2005.

This condensed consolidated interim financial information is presented in HK Dollars (HK$), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Company's Board of Directors on 16 September 2008.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2008 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 2007, which have been prepared in accordance with HKFRSs.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described therein.

The presentation currency has been changed from Chinese Renminbi to Hong Kong Dollars effective from 1 January 2008, considering the Company is listed in Hong Kong.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions"
- HK(IFRIC) – Int 12, "Service concession arrangements"
- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8 "Operating Segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14 "Segment Reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009.
- HKAS 23 (amendment) "Borrowing Costs", effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 23 (amendment) from 1 January 2009. Management does not anticipate any material impact on the Group's accounts as the Group has already followed the principles of capitalising borrowing costs relating to qualify assets in accordance with the existing HKAS 23.

3 ACCOUNTING POLICIES *(Continued)*

- HKFRS 2 (amendment) "Share-based Payment", effective for annual periods beginning on or after 1 January 2009. The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (amendment) from 1 January 2009.

- 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. The Group will apply those standards from 1 January 2010.

- HKAS 1 (revised) "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January 2009. It requires certain new presentation of the financial statements. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other standards. Management will adopt the revised disclosure requirements of this standard from 1 January 2009.

- HKAS 32 (amendment) "Financial Instruments: Presentation", and consequential amendments to HKAS 1 "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January 2009. The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This is not relevant to the Group as the Group does not have any puttable instruments.

- HK(IFRIC) – Int 13 "Customer Loyalty Programmes", effective for annual periods beginning on or after 1 July 2008. This interpretation is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

4 SEGMENT INFORMATION, REVENUE AND OTHER GAINS – NET

The Group has one business segment – manufacturing and sale of finished medicines and bulk pharmaceuticals. 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	
	2008	2007
	Unaudited	Unaudited
Sales:		
– Sales of pharmaceutical products	**844,448**	456,419
– Processing income	**377**	186
– Sales of raw materials and by products	**1,510**	151
	846,335	456,756
Other gains – net:		
– Gain on disposal of a subsidiary *(Note 16)*	**8,420**	–
– Gain on disposal of available-for-sale financial assets	**93**	–
– Gain on disposal of financial assets at fair value through profit	**763**	15,489
– Change in fair value of financial assets at fair value through profit or loss	**(993)**	–
– Subsidy income	**1,487**	–
– Gain on disposal of property, plant and equipment	**2,099**	–
– Others	**–**	6,442
	11,869	21,931

5 CAPITAL EXPENDITURE

	Goodwill	Unaudited Other intangible assets	Property, plant and equipment	Land use rights
Six months ended 30 June 2008				
Opening net book amount as at 1 January 2008	429,075	120,998	719,605	68,032
Additions	–	–	101,651	–
Disposals	–	–	(72,496)	–
Disposals resulting from disposing of a subsidiary	–	(11)	(36,036)	(4,310)
Depreciation/Amortisation	–	(1,912)	(27,352)	(810)
Exchange differences	27,920	7,811	46,886	4,401
Closing net book amount as at 30 June 2008	456,995	126,886	732,258	67,313
Six months ended 30 June 2007				
Opening net book amount as at 1 January 2007	–	6,951	358,270	6,913
Additions	–	–	23,587	965
Additions resulting form acquisition of a subsidiary	416,779	107,601	274,917	62,156
Disposals	–	–	(31)	(3,941)
Depreciation/Amortisation	–	(465)	(15,679)	–
Exchange differences	–	209	11,252	169
Closing net book amount as at 30 June 2007	416,779	114,296	652,316	66,262

6 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 2008 Unaudited	31 December 2007 Audited
Within 3 months	**335,236**	265,274
4 to 6 months	**36,037**	47,206
7 to 12 months	**29,401**	22,885
1 to 2 years	**3,929**	4,086
2 to 3 years	**2,074**	630
More than 3 years	**26**	1,472
	406,703	341,553
Less: provision for impairment of receivables	**(9,845)**	(10,747)
	396,858	330,806

7 SHARE CAPITAL

	As at	
	30 June 2008 Unaudited	31 December 2007 Audited
Authorised:		
10,000,000,000 shares of HK$0.02 each	**200,000**	200,000

7 SHARE CAPITAL *(Continued)*

	Six months ended 30 June			
	2008		2007	
	Unaudited		Unaudited	
	Number of shares (thousands)	**Amount**	Number of shares (thousands)	Amount
Issued and fully paid up:				
Balance at 1 January	**2,019,652**	**40,393**	290,500	29,050
Issue of shares for acquisition of subsidiary	**–**	**–**	110,000	11,000
Issue of shares upon conversion of convertible bonds	**7,351**	**147**	–	–
Balance at 30 June	**2,027,003**	**40,540**	400,500	40,050

During the period ended 30 June 2008, convertible bonds *(Note 17)* amounting to RMB6,000,000 were converted into 7,351,000 ordinary shares of the Company at the pre-determined conversion price of HK$0.83 per share at fixed exchange rate of HK$1 to RMB0.98339.

Pursuant to the resolutions passed at the extraordinary general meeting held at 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, which should rank pari passu in all respects with each other and had the same rights and privileges that were subject to the restrictions contained in the Articles of Association of the Company.

8 RESERVES

	Unaudited						
	Share premium	Capital reserve *(Note a)*	Equity component of convertible bonds *(Note 17)*	Statutory reserves *(Note b)*	Currency translation difference	Retained earnings	Total
At 1 January 2008	688,092	165,067	8,840	94,880	856	197,169	1,154,904
Profit for the period	–	–	–	–	–	116,390	116,390
Dividends	–	–	–	–	–	(12,162)	(12,162)
Issue of shares upon conversion of convertible bonds	6,544	–	(763)	–	–	–	5,781
Currency translation differences	–	–	–	–	81,932	–	81,932
At 30 June 2008	694,636	165,067	8,077	94,880	82,788	301,397	1,346,845
At 1 January 2007	120,676	156,164	–	70,659	(2,640)	125,035	469,894
Profit for the period	–	–	–	–	–	52,201	52,201
Dividends	–	–	–	–	–	(20,335)	(20,335)
Equity component of convertible bonds *(Note 17)*	–	–	9,274	–	–	–	9,274
Dilution of minority interest of a subsidiary	–	(688)	–	–	–	–	(688)
Issue of shares	522,500	–	–	–	–	–	522,500
Currency translation differences	–	–	–	–	16,276	–	16,276
At 30 June 2007	643,176	155,476	9,274	70,659	13,636	156,901	1,049,122

8 RESERVES *(Continued)*

(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 to acquire such an interest during a group 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 in the PRC 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.

9 LONG-TERM PAYABLES

The balance mainly represents the retirement benefits and early retirement allowance payable to the employees of Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd., wholly owned subsidiaries.

The maturity profile of the long-term payable is as follows:

	As at	
	30 June 2008 Unaudited	31 December 2007 Audited
Within 1 year	**4,612**	5,010
Between 1 to 2 years	**3,895**	3,657
Between 2 to 5 years	**5,525**	5,193
More than 5 years	**7,705**	8,799
	21,737	22,659
Less: Current portion included in current liabilities	**(4,612)**	(5,010)
	17,125	17,649

10 TRADE AND BILLS PAYABLES

Ageing analysis of trade and bills payables is as follows:

	As at	
	30 June 2008 Unaudited	31 December 2007 Audited
Within 3 months	**114,229**	98,344
4 to 6 months	**10,688**	21,272
7 to 12 months	**8,585**	5,068
1 to 3 years	**6,595**	11,352
More than 3 years	**2,105**	1,897
	142,202	137,933

11 BANK BORROWINGS

	As at	
	30 June 2008 Unaudited	31 December 2007 Audited
Long-term		
– Due within one year	**70,625**	28,500
– Due over one year	**61,437**	90,519
	132,062	119,019
Short-term	**280,236**	253,840
Total borrowings	**412,298**	372,859
Representing:		
Unsecured	**295,615**	205,386
Secured (i)	**110,996**	130,095
Guaranteed (ii)	**5,687**	37,378
	412,298	372,859

(i) As at 30 June 2008, the Group's land use rights *(Note 5)*, buildings and machineries *(Note 5)* and bank deposits with carry amounts of approximately HK$56,696,000, HK$132,397,000 and HK$8,488,000 respectively were pledged as collateral for the Group's bank borrowings.

(ii) As at 30 June 2008, the Group's bank borrowings amounting to approximately HK$5,687,000 was guaranteed by a subsidiary of CMP Group Limited ("CMP Group") whose Director and controlling shareholder is also a Director of the Company.

Interest expense on bank borrowings for the six months ended 30 June 2008 is HK$15,914,000 (30 June 2007: HK$7,176,000).

12 EXPENSE BY NATURE

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Raw materials and consumables used	**337,917**	171,844
Changes in inventories of finished goods and work in progress	**6,018**	(9,784)
Staff costs including directors' emoluments	**103,097**	51,018
Sales commission	**77,530**	57,443
Utility expenses	**36,519**	22,158
Advertising expenses	**34,138**	25,068
Depreciation of property, plant and equipment	**27,352**	15,679
Write-down of inventories	**4,144**	1,900
Operating leases rental expenses in respect of land use right in the PRC	**3,033**	2,811
Provision for impairment of receivables	**2,208**	318
Amortisation of intangible assets (general and administrative expenses)	**1,912**	465
Auditor's remuneration	**1,178**	1,117
Research and development costs	**1,083**	2,586
Amortisation of land use rights (general and administrative expenses)	**810**	–
Others	**72,062**	68,240
	709,001	410,863

13 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 for as the Group had no assessable profit in Hong Kong for the six months ended 30 June 2008 (2007: Nil).

13 INCOME TAXES *(Continued)*

In May 2005, the PRC Enterprise Income Tax ("EIT") rate of Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd. have 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. and Shijiazhuang No.4 Pharmaceutical Co., Ltd. have obtained approvals from the relevant tax authorities in Shaanxi and Hebei provinces, which are also effective from 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. These two subsidiaries began their tax concessions in 2005.

In March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which will be effective from 1 January 2008. According to the new CIT Law, the PRC income tax for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a PRC income tax rate lower than 25% may continue to enjoy the lower PRC income tax rate and gradually transfer to the new PRC income tax rate within five years after the effective date of the new CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. Therefore, the average annual tax rate used for 2008 is 12.5%.

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Current income tax	**14,774**	8,974
Deferred income tax	**616**	828
	15,390	9,802

14 DIVIDEND

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Interim dividend, declared, of HK0.6 cent (2007: HK1.0 cent) per ordinary share	**12,162**	20,074

At a meeting held on 16 September 2008, the Company's Board of Directors declared a dividend of HK0.6 cent per ordinary share in respect of the six months ended 30 June 2008. The dividend declared has not been reflected as a dividend payable in this condensed consolidated financial information, but will be reflected as an appropriation of retained earnings during the year ending 31 December 2008 upon payment.

15 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately HK$116,390,000 (2007: HK$52,201,000) by the weighted average number of 2,026,677,000 (2007: 1,458,577,000) ordinary shares in issue during the period.

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.

15 EARNINGS PER SHARE *(Continued)*

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	**116,390**	52,201
Interest expense on convertible bonds	**8,143**	1,171
Adjusted profit attributable to equity holders of the Company	**124,533**	53,372
Weighted average number of ordinary shares in issue (thousands)	**2,026,677**	1,458,577
Adjustments for assumed conversion of convertible bonds (thousands)	**171,523**	196,027
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,198,200**	1,654,604
Diluted earnings per share (HK$ per share)	**0.0567**	0.0323

16 DISPOSAL OF A SUBSIDIARY

The Group held a 80.675% equity interest in Shaanxi Lijun Modern Chinese Medicine Co., Ltd. ("Modern Chinese Medicine"). On 30 June 2008, the Group disposed of 51.865% and 28.81% equity interests in Modern Chinese Medicine to Rejoy Group Limited Liability Company ("Rejoy Group") and Cao Xinru, at consideration of approximately HK$10,237,000 and HK$6,554,000 respectively.

– Property, plant and equipment	36,036
– Intangible assets	11
– Land use rights	4,310
– Inventories	5,701
– Cash and cash equivalents	177
– Accounts and bills receivable, net	981
– Other receivables and other current assets	4,437
– Trade and other payables	(28,838)
– Borrowings	(10,237)
– Other current liabilities	(4,207)
Net book amount disposed of	8,371
Gain on disposal of a subsidiary *(Note 4)*	8,420
	16,791
Satisfied by	
Cash	16,791

17 CONVERTIBLE BONDS

In May 2007, the Company issued zero-coupon convertible bonds, due on 30 May 2010 (the "maturity date"), in the aggregate principal amount of RMB160,000,000. This bonds have an initial conversion price of HK$4.15 per ordinary share at a fixed exchange rate of HK$1 to RMB0.98339, which was adjusted to HK$0.83 on 28 August 2007 after the share sub-division. Unless previously redeemed, converted or purchased and cancelled as provided in the terms and conditions of the convertible bonds, the Company has to redeem the convertible bonds at 121.1547% of their principal amount on the maturity date, and such redemption has to be settled in Hong Kong Dollars at the exchange rate at that date.

17 CONVERTIBLE BONDS *(Continued)*

The fair value of the liability component of the convertible bonds at 30 June 2008 amounted to approximately HK$161,211,000. The fair value is calculated using cash flows discounted at a rate on the borrowing rate of 6.03% per annum.

	Unaudited
Initial recognition:	
– Face value of convertible bond issued	163,549
– Equity conversion component, net of deferred tax liability	(9,274)
– Deferred income tax liabilities	(1,967)
– Issuing expenditure	(2,175)
Liability component at 30 May 2007	150,133
Interest expense	1,171
Exchange differences	619
Liability component at 30 June 2007	151,923
Liability component at 1 January 2008	151,135
Interest expense	8,143
Recognition of deferred income tax liability	162
Converted into ordinary shares	(5,928)
Exchange differences	9,744
Liability component at 30 June 2008	163,256

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.

18 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) The directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group	An entity significantly influenced by key management personnel
Modern Chinese Medicine	Subsidiary of Rejoy Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Controlled by the same shareholders of the shareholder of the Group
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	Subsidiary of Rejoy Technology
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by key management personnel
CMP Group	Mr. Qu Jiguang, a Director of the Company, is a Director and the controlling shareholder of CMP Group
Global Printing Co., Ltd. ("Global Printing")	Controlled by the same ultimate parent company of Rejoy Group

18 RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Except for related party transactions disclosed elsewhere in this interim financial information, the Group had the following significant transactions with related parties:

		Six months ended 30 June	
Nature of transactions	**Name of related party**	**2008 Unaudited**	2007 Unaudited
Purchasing of raw materials and packaging materials	Rejoy Baichuan	**–**	6
	Rejoy Packaging	**1,566**	422
	Global Printing	**3,035**	3,566
		4,601	3,994
Sales of finished goods	Rejoy Medicine	**3,517**	1,090
	Rejoy Baichuan	**12,064**	8,809
	Xi'an Pharmacy Factory	**125**	112
	Rejoy Group	**2**	–
		15,708	10,011
Provision of utilities from	Xi'an Pharmacy Factory	**26,131**	26,698
Sharing of administrative costs from	Xi'an Pharmacy Factory	**1,652**	6,569
Lease of land use rights from	Rejoy Group	**3,033**	2,811
Lease of office premises to	Rejoy Group	**110**	101
	Rejoy Baichuan	**52**	–
	Rejoy Medicine	**52**	–
		214	101

18 RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Except for related party transactions disclosed elsewhere in this interim financial information, the Group had the following significant transactions with related parties: *(Continued)*

		Six months ended 30 June	
Nature of transactions	**Name of related party**	**2008 Unaudited**	2007 Unaudited
Provision of building construction services by	Xiyao Construction	**–**	715
Investment in the form of land use rights	Rejoy Real Estate	**–**	3,570
Dispose of property, plant and equipment to	Rejoy Real Estate	**71,473**	–

(c) Key management compensation

	Six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Salaries and wages	**4,750**	1,445

18 RELATED-PARTY TRANSACTIONS *(Continued)*

(d) The Group had the following significant balances with related parties:

	As at	
	30 June 2008 Unaudited	31 December 2007 Audited
Amounts due from related parties included in trade receivables		
– Rejoy Medicine	**5,628**	9,130
– Rejoy Baichuan	**12,025**	13,810
	17,653	22,940
Amounts due from related parties included in prepayments, deposits and other receivables		
– Xi'an Pharmacy Factory	**598**	–
– Rejoy Packaging	**373**	208
– Rejoy Technology	**68**	63
– Rejoy Group	**10,237**	214
– Rejoy Real Estate	**41,580**	–
	52,856	485
Amounts due to related parties included in trade payables		
– Global Printing	**763**	–
– Rejoy Baichuan	**–**	6
– Rejoy Packaging	**6**	426
	769	432
Amounts due to related parties included in accruals and other payables		
– Rejoy Medicine	**6**	–
– Rejoy Baichuan	**1**	–
– Rejoy Group	**–**	845
	7	845

The related party balances are all unsecured, interest free and have no pre-determined terms of repayment.

19 COMMITMENTS

(a) Capital commitments

	As at 30 June 2008 Unaudited	As at 30 June 2007 Unaudited
Purchase of property, plant and equipment		
– Contracted but not provided for	**10,517**	12,683

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of office premises in the PRC and Hong Kong under non-cancellable operating leases are payable as follows:

	As at 30 June 2008 Unaudited	As at 30 June 2007 Unaudited
Not later than one year	**3,457**	5,549
Later than one year and not later than five years	**21,856**	10,005
	25,313	15,554

20 EVENT AFTER THE BALANCE SHEET DATE

In August 2008, the Company granted share options to certain Directors and employees to subscribe 100,000,000 shares at an exercise price of HK$0.7 per share, exercisable on or before 6 August 2011. The Company has no legal or constructive obligation to repurchase or settle the options in cash.