

# 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

# 2006

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## **CORPORATE INFORMATION**

### **STOCK CODE**

2005

### **EXECUTIVE DIRECTORS**

Mr. Wu Qin (*Chairman*)

Mr. Wu Zhihong

Mr. Huang Chao

Mr. Xie Yunfeng

Ms. Sun Xinglai

### **NON-EXECUTIVE DIRECTOR**

Mr. Liu Zhiyong

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Qu Jiguang

Mr. Leung Chong Shun

Mr. Chow Kwok Wai

### **COMPANY SECRETARY**

Mr. Lam Yiu Por

### **REGISTERED OFFICE**

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681 GT, George Town

Grand Cayman, British West Indies

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Office 1606, 16th Floor, Office Tower

Convention Plaza, 1 Harbour Road

Wanchai, Hong Kong

### **AUTHORISED REPRESENTATIVES**

Mr. Wu Zhihong

Ms. Sun Xinglai

### **COMPLIANCE ADVISER**

Guotai Junan Capital Limited

### **AUDIT COMMITTEE**

Mr. Chow Kwok Wai (*Chairman*)

Mr. Qu Jiguang

Mr. Leung Chong Shun

### **REMUNERATION COMMITTEE**

Mr. Leung Chong Shun (*Chairman*)

Mr. Qu Jiguang

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 1712-16, 17th Floor

Hopewell Centre

183 Queen's Road East, Hong Kong

### **PRINCIPAL BANKERS**

Industrial and Commercial Bank of China

China Construction Bank

China Construction Bank (Asia) Limited

China Merchants Bank

China Minsheng Banking Corp., Ltd.

CITIC Industrial Bank

Hang Seng Bank

### **LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW**

Mallesons Stephen Jaques

### **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 2006.

### RESULTS AND DIVIDEND PAYMENTS

The operation of the Group was relatively stable for the first half of the year. During the period, sales income amounted to RMB447,581,000, representing an increase of 3.3% as compared to the corresponding period last year, while profit attributable to shareholders amounted to RMB41,615,000, representing an increase of 10.8% as compared to the corresponding period last year.

The Board has resolved the payment of an interim dividend of HK\$0.07 per share.

### BUSINESS REVIEW

The Group's antibiotics products still accounted for a significant portion of its sales income. The sales income of Lijunsha, the core product of the Group, increased by 4.3% as compared to the corresponding period last year. The overall sales of antibiotics generally remained level as compared to the corresponding period last year. As a result of the sales increase in products such as other finished medicines, bulk pharmaceuticals and Dobesilate, the proportion of antibiotics in overall sales income further decreased.

The growth in the sales of non-antibiotics finished medicines was satisfactory. Dobesilate achieved a growth of 43%, and was still the Group's product with the highest growth rate.

Under the influence of the State's policy in price reduction last year and business environment in the first half of the year, the growth of the Group's Azithromycin products was below expectation, while Cephalosporins products recorded a more significant negative growth. Due to the reorganization of Hengxintang, the production and operation of Chinese medicinal products was not yet back on a normal track.

The overall gross profit margin of the Group further increased, which was mainly attributable to the increase in the weighting of high margin products in the portfolio and the cost control efforts of the Group.

In respect of material investment, the Company acquired 20% equity interests in Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun"), which then became a wholly-owned subsidiary of the Group and the consideration involved in the acquisition amounted to RMB102,556,452. The acquisition was entirely financed with bank loans. Capital expenditures during the period mainly comprised the project for the expansion of production capacities of Paiqi lyophilized powder for injection, the design of the production line of oral solution products and the construction of its certain civil works and the order of core production lines. For the six months ended 30 June 2006, the capital expenditure amounted to RMB22,540,000 in total.

## **OUTLOOK FOR THE SECOND HALF OF THE YEAR**

Looking forward to the second half of the year, the development of pharmaceutical industry still faces significant challenges. Quality, safety and legality of pharmaceutical products in the whole operating system are raising increasing concern. As the State reinforces the control over the entire production and operation process, significant changes in the pharmaceutical market are imminent. As a pharmaceutical production and operation corporation, the Group would research on the State's new policies and legislation in a timely manner so as to seize the opportunities arising and, more importantly, try to eliminate the impact that may be caused.

Development in the rural markets still remains one of the Company's major strategies. With the State's establishment of rural medical insurance systems, there is immense growth potential in the rural pharmaceutical markets. The Group will still prioritize the promotion of Lijunsha and the sales of other general medicines in rural areas.

The development of Cephalosporins products and Paiqi products in medium to large cities markets needs to be strengthened. However, under the influence of the overall pharmaceutical market environment, the Group may lower the sales target for the two product types.

The development of non-prescriptive medicines and health-care products will remain as the major direction for the Group to realign the product mix. To strive for a significant increase in the proportion of non-prescriptive medicines and health-care products in sales next year, the Group will enhance the advertising and promotion of non-prescriptive medicines, Dobesilate, and accelerate the construction of the production line of new products in the second half of the year.

The Group will leverage on its edges in branding and sales network to maintain its leading position in Macrolide antibiotics. The Group also endeavors to increase its market share through the consolidation of the pharmaceutical market, achieving satisfactory returns for its shareholders.

On behalf of the Board, I hereby express our genuine gratitude to our investors and employees for their support in the past.

On behalf of the Board,

**Wu Qin**

*Chairman*

Hong Kong, 1 September 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

### SALES

Benefited from the increase in sales of key products, i.e. Lijunsha, and non-antibiotics finished medicines, the Group's total sales increased from RMB433,092,000 for the corresponding period last year by 3.3% to RMB447,581,000 for the six months ended 30 June 2006.

#### For the six months ended 30 June

	2006		2005		Change %
	Sales RMB'000	Percentage of sales %	Sales RMB'000	Percentage of sales %	
Antibiotics					
— Lijunsha	212,086	47.4	203,352	47.0	4.3
— Paiqi	44,615	10.0	43,594	10.1	2.3
— Erythromycin tablets	31,011	6.9	28,688	6.6	8.1
— Cephalosporin	20,969	4.7	27,949	6.5	-25.0
— Limaixian	7,422	1.7	8,609	2.0	-13.8
— Other antibiotics	10,902	2.4	12,331	2.8	-11.6
<b>Total sales of antibiotics</b>	<b>327,005</b>	<b>73.1</b>	<b>324,523</b>	<b>75.0</b>	<b>0.8</b>
Dobesilate	18,596	4.2	13,007	3.0	43.0
Other finished medicines	59,233	13.2	52,953	12.2	11.9
<b>Total sales of other finished medicines</b>	<b>77,829</b>	<b>17.4</b>	<b>65,960</b>	<b>15.2</b>	<b>18.0</b>
Sales of bulk pharmaceuticals	39,445	8.8	35,614	8.2	10.8
Sales of Chinese medicines	1,856	0.4	4,447	1.0	-58.3
Others	1,446	0.3	2,548	0.6	-43.3
<b>Group's total sales</b>	<b>447,581</b>	<b>100</b>	<b>433,092</b>	<b>100</b>	<b>3.3</b>

## **ANTIBIOTICS**

The sales of antibiotics for the period amounted to RMB327,005,000, which is similar to that of the corresponding period last year.

The sales of Lijunsha, the major product of the Group, accounted for 47.4% of the Group's total sales and amounted to RMB212,086,000, representing an increase of 4.3% as compared to the corresponding period last year. In 2005, the Group reinforced its efforts in market exploration for Lijunsha in small- and medium-sized cities and villages. The sales of Lijunsha have been growing with the increasing marketing initiatives launched in these regions.

In respect of Paiqi, the new generation antibiotics product, the Group is currently focusing its efforts on promoting the product to the first-tier cities. For the six months ended 30 June 2006, sales of Paiqi amounted to RMB44,615,000, representing an increase of 2.3% from RMB43,594,000 for the corresponding period last year.

Subject to market conditions, the Group's sales of Cephalosporins antibiotics products decreased.

## **OTHER FINISHED MEDICINES**

Sales of other finished medicines amounted to RMB77,829,000 for the period, representing an increase of 18.0% as compared to the corresponding period last year. The increase was mainly attributable to the introduction of new products and the increase in the sales of fever relief products. Among other finished medicines, the sales of "Dobesilate", the focal non-antibiotics product under the Group's marketing initiatives, reached RMB18,596,000, representing an increase of 43.0% as compared to RMB13,007,000 for the corresponding period last year. It is the plan of the Group to launch more advertising and promotion activities for Dobesilate in the second half of 2006 in order to speed up its growth.

## **BULK PHARMACEUTICALS**

The growing market demand of bulk pharmaceuticals and the improvement in export environment increased the Group's sales of bulk pharmaceuticals by 10.8% to RMB39,445,000.

## **COST OF GOODS SOLD AND GROSS PROFIT**

The total cost of goods sold amounted to RMB213,403,000 for the six months ended 30 June 2006. The cost of direct materials, direct labour and overhead represented 75.9%, 8.1% and 16.0% of the total cost of goods sold respectively.

For the six months ended 30 June 2006, the Group recorded a total gross profit of RMB234,178,000. The increase in the Group's sales of products with higher gross profit such as Lijunsha, Paiqi and Dobesilate during the period, coupled with the improvement in production efficiency, contributed to the rise of overall gross profit by 2.8 percentage points, from 49.5% for the corresponding period last year to 52.3%.

## **SELLING AND MARKETING EXPENSES**

For the six months ended 30 June 2006, selling and marketing expenses amounted to approximately RMB121,996,000, which mainly comprised advertising expenses of approximately RMB34,580,000, marketing expenses of approximately RMB63,932,000 and sales office and staff expenses of approximately RMB23,484,000.

The increase of 18.8% in selling and marketing expenses for the six months ended 30 June 2006 as compared with that of the corresponding period in 2005 was mainly attributable to the Group's reinforced advertising efforts in promoting products such as Lijunsha, Paiqi and Dobesilate, in addition to increased marketing exploration and sales expenses arising from the adjustment of sales policies.

### **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses amounted to approximately RMB61,215,000 for the six months ended 30 June 2006, which mainly comprised salaries of approximately RMB19,767,000, depreciation of approximately RMB4,909,000, office and rental expenses of approximately RMB4,723,000, sharing of administrative costs of Shaanxi Xi'an Pharmaceutical Factory of approximately RMB6,500,000, impairment provision for receivables of RMB4,963,000 and research and development expenses of approximately RMB3,561,000.

The increase of 25.5% in general and administrative expenses for the six months ended 30 June 2006 as compared to that of the corresponding period last year was mainly attributable to the increase in the cost of salaries, impairment provision for receivables and other administrative expenses.

### **OPERATING PROFIT**

For the six months ended 30 June 2006, the increase in sales and gross profit has led to a rise of gross profit by 9.3%. However, operating expenses has increased as well, leading to a decrease in the Group's operating profit to RMB54,325,000, representing a drop of 12.3% as compared to that of the corresponding period last year, whereas operating profit margin (defined as operating profit divided by total sales) also dropped from 14.3% to 12.1%.

### **FINANCE COSTS**

The Group's finance costs for the period amounted to RMB3,294,000, which remained similar as compared to that of the corresponding period last year.

### **INCOME TAX EXPENSE AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD**

During the period, Xi'an Lijun, the Group's major subsidiary, continued to enjoy the exemption from the enterprise income tax. With the substantial reduction in the amount of deferred tax, the profit attributable to equity holders of the Company for the period increased by 10.8% to RMB41,615,000 while net profit margin (profit attributable to equity holders of the Company for the period divided by total sales) increased to 9.3% from 8.7% 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 loans from time to time in case the operating cashflow is insufficient to meet the capital requirements.

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

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

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

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

## **EXCHANGE EXPOSURE**

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

## **PLEDGE OF ASSETS**

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

## **CONTINGENT LIABILITIES**

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

## **PROCEEDS FROM INITIAL PUBLIC OFFERING**

Proceeds from initial public offering amounted to approximately HK\$145,557,000, net of relevant expenses. Most of the proceeds from initial public offering had not been utilized as at 30 June 2006 and such proceeds were mainly deposited in the bank accounts of the Group.

Application of Proceeds from initial public offering:

	<b>Planned use of net proceeds HK\$'000</b>	<b>Actual use of net proceeds as at 30 June 2006 HK\$'000</b>
Setting up of the new production line of spray form products	3,800	—
Setting up of the new production line of oral solution products	43,300	3,021
Setting up of the new production line of soft capsule form products	21,200	67
Expansion of production capacities of lyophilized powder for injection	17,300	8,688
Improvement of existing products and production technology of Chinese medicines, improvement and expansion of the Group's existing production facilities of Chinese medicines, development of new forms of Chinese medicines, and promotion of the brand name of the Group's Chinese medicines	19,200	—
Enhancement and expansion of the Group's distribution network	9,200	—
Setting up of centralised information and management systems for sales networks	5,800	—
Enhancement of the research and development capability to improve existing and develop new pharmaceutical technology	21,400	3,561
Group's Working capital	4,357	4,357
<b>Total</b>	<b>145,557</b>	<b>19,694</b>

## **INTERIM DIVIDEND**

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

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

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

## **SUBSTANTIAL INVESTMENT AND ACQUISITION**

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

## **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, for the 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.

No option has been granted by the Company under the Scheme since its adoption.

#### **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2006, the Group had approximately 2,550 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 emolument 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 2006 was RMB45,518,000.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES**

As at 30 June 2006, the following Directors had interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are 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 for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

### **Long positions in the Shares**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>% of the issued share capital of the Company</b>
Mr. Wu Qin	Interest in a controlled corporation ( <i>Note</i> )	22,344,000	7.69%

*Note:* These Shares were registered in the name of and beneficially owned by Success Manage International Limited ("Success Manage"), the issued share capital of which is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, Mr. Wu Qin is deemed to be interested in all the Shares held by Success Manage.

Save as disclosed above, as at 30 June 2006, none of the Directors or chief executives 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 Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

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

As at 30 June 2006, the following persons, other than a Director or chief executive of the Company, have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under S336 of the SFO.

### **Long positions in the Shares**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>% of the issued share capital of the Company</b>
Prime United Industries Limited (Note 1)	Beneficial owner	123,984,000	42.68%
Victory Rainbow Investment Limited	Beneficial owner	58,300,000	20.07%
Grand Ocean Shipping Company Ltd. (Note 2)	Interest of controlled corporation	58,300,000	20.07%
Ms. Chen Lin-Dong (Note 2)	Interest of controlled corporation	58,300,000	20.07%
Mr. Xu Ming (Note 2)	Interest of controlled corporation	58,300,000	20.07%
Success Manage	Beneficial owner	22,344,000	7.69%
Ms. Zhang Minfang (Note 3)	Interest of spouse	22,344,000	7.69%
Japan Trustee Services Bank, Ltd.	Trustee	15,016,000	5.17%

*Notes:*

1. Prime United Industries Limited is held as to 2.43% by Mr. Wu Qin, an executive Director, as to approximately 2.43% by Mr. Wu Zhihong, an executive Director, as to approximately 2.41% by Mr. Huang Chao, an executive Director, as to approximately 4% by Mr. Xie Yunfeng, an executive Director, as to approximately 4% by Ms. Han Yamei, a member of the management of Xi'an Lijun, and as to approximately 84.73% by Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yamei who jointly hold such shares on trust for 4,965 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group. Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao and Mr. Xie Yunfeng, the executive Directors, are also directors of the Prime United Industries Limited.
2. 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.
3. Success Manage is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, the spouse of Mr. Wu Qin, Ms. Zhang Minfang, are deemed to be interested in all the Shares held by Success Manage. Mr. Wu Qin, Mr. Wu Zhihong and Mr. Huang Chao, the executive Directors, are also directors of Success Manage International 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 of the Stock Exchange during the period.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors. The Company, having made specific enquiry, confirms that all directors have complied with the required standards set out in Model Code throughout the six months period ended 30 June 2006.

### **INDEPENDENT REVIEW OF AUDITORS**

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

### **AUDIT COMMITTEE**

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

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 19 September 2006 to Thursday, 21 September 2006 (both day inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s), must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 18 September 2006.

On behalf of the Board

**Wu Qin**

*Chairman*

Hong Kong, 1 September 2006



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central, Hong Kong

**INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF  
LIJUN INTERNATIONAL PHARMACEUTICAL (HOLDING) CO., LTD.**

*(Incorporated in the Cayman Islands with limited liability)*

**INTRODUCTION**

We have been instructed by the Company to review the interim financial report of the Company set out on pages 19 to 38.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of consolidated condensed interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on this interim financial report 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.

### **REVIEW WORK PERFORMED**

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 1 September 2006

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in RMB unless otherwise stated)

	Note	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	343,752	336,726
Land use rights	5	6,980	7,014
Deferred income tax assets		7,708	7,436
Available-for-sale financial assets		609	609
<b>Total non-current assets</b>		<b>359,049</b>	351,785
<b>Current assets</b>			
Inventories		112,085	93,385
Trade and bills receivables	6	161,951	151,326
Prepayments, deposits and other receivables		43,984	66,000
Bank and cash balances		254,873	275,122
<b>Total current assets</b>		<b>572,893</b>	585,833
<b>Total assets</b>		<b>931,942</b>	937,618
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	7	151,468	151,468
Reserves	8	328,813	349,257
		<b>480,281</b>	500,725
<b>Minority interest</b>		<b>897</b>	93,647
<b>Total equity</b>		<b>481,178</b>	594,372

	Note	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term payables	9	17,742	16,512
<b>Total non-current liabilities</b>		<b>17,742</b>	16,512
<b>Current liabilities</b>			
Trade and bills payables	10	64,576	60,264
Deposits and advance receipts from customers		10,464	14,516
Accrual and other payables		85,016	108,831
Income tax payable		14,628	14,628
Dividend payable		11,742	14,763
Short-term bank loans	11	240,940	108,000
Current portion of long-term bank loans	11	5,000	5,000
Current portion of long-term payables	9	656	732
<b>Total current liabilities</b>		<b>433,022</b>	326,734
<b>Total liabilities</b>		<b>450,764</b>	343,246
<b>Total equity and liabilities</b>		<b>931,942</b>	937,618
<b>Net current assets</b>		<b>139,871</b>	259,099
<b>Total assets less current liabilities</b>		<b>498,920</b>	610,884

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

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*(All amounts in RMB unless otherwise stated)*

	Note	Six months ended 30 June	
		2006 Unaudited RMB'000	2005 Audited RMB'000
Sales	4	447,581	433,092
Cost of goods sold		(213,403)	(218,824)
<b>Gross profit</b>		<b>234,178</b>	214,268
Other gain/(losses), net		3,358	(842)
Selling and marketing costs		(121,996)	(102,678)
General and administrative expenses		(61,215)	(48,784)
<b>Operating profit</b>	12	<b>54,325</b>	61,964
Finance costs	11	(3,294)	(3,471)
<b>Profit before income tax</b>		<b>51,031</b>	58,493
Income tax	13	273	(11,885)
<b>Profit for the half year</b>		<b>51,304</b>	46,608
<b>Attributable to:</b>			
— Equity holders of the Company		41,615	37,556
— Minority interest		9,689	9,052
		<b>51,304</b>	46,608
<b>Basic earnings per share for profit attributable to the equity holders of the Company</b> <i>(expressed in RMB per share)</i>	14	<b>0.14</b>	0.18
<b>Dividends</b>	15	<b>20,933</b>	4,218

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

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB unless otherwise stated)

	Audited					
	Note	Attributable to equity holders of the Company			Minority interest	Total equity
		Capital	Reserves	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at 1 January 2005</b>		1	259,318	259,319	86,022	345,341
Profit for the half year		—	37,556	37,556	9,052	46,608
Dividends		—	(3,374)	(3,374)	(844)	(4,218)
<b>Balance at 30 June 2005</b>		1	293,500	293,501	94,230	387,731

	Unaudited					
		Attributable to equity holders of the Company			Minority interest	Total equity
		Capital	Reserves	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at 1 January 2006</b>		151,468	349,257	500,725	93,647	594,372
Profit for the half year		—	41,615	41,615	9,689	51,304
Exchange difference		—	(2,352)	(2,352)	—	(2,352)
Dividends		—	(47,848)	(47,848)	(11,742)	(59,590)
Acquisition of minority interest	16	—	(11,859)	(11,859)	(90,697)	(102,556)
<b>Balance at 30 June 2006</b>		151,468	328,813	480,281	897	481,178

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

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

*(All amounts in RMB unless otherwise stated)*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2006 Unaudited RMB'000</b>	2005 Audited RMB'000
<b>Cash flows from operating activities — net</b>		<b>33,948</b>	25,887
<b>Cash flows from investing activities:</b>			
— acquisition of minority interests	16	(102,556)	—
— purchases of property, plant and equipment		(21,954)	(5,516)
— other investing cash flow — net		(16)	751
<b>Cash flows used in investing activities — net</b>		<b>(124,526)</b>	(4,765)
<b>Cash flows from financing activities:</b>			
— dividends paid		(62,611)	(20,500)
— new bank loans		172,940	30,000
— repayments of borrowings		(40,000)	(62,000)
— Pledged deposits for bank borrowings		(102,940)	—
— other finance cash flows — net		—	(2,337)
<b>Cash flows used in financing activities — net</b>		<b>(32,611)</b>	(54,837)
<b>Net decrease in cash and cash equivalents</b>		<b>(123,189)</b>	(33,715)
<b>Cash and cash equivalents at beginning of period</b>		<b>275,122</b>	138,674
<b>Cash and cash equivalents at end of period</b>		<b>151,933</b>	104,959

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*(All amounts in RMB 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 medicines and bulk pharmaceuticals through a network of independent retailers. The Group has manufacturing plants in the Shaanxi Province, the People's Republic of China ("PRC"), and sells mainly in places within 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 Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman British West Indies.

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

This condensed consolidated interim financial information is presented in Renminbi (RMB), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 1 September 2006.

### 2. BASIS OF PREPARATION

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

### 3. ACCOUNTING POLICIES

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

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

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. The Group has decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;
- Amendment to HKAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the group;
- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;

**3. ACCOUNTING POLICIES** *(Continued)*

- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market — waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

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

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. This interpretation is not relevant for the Group;
- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

**4. 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.

	<b>Six months ended 30 June</b>	
	<b>2006</b> <b>Unaudited</b> <b>RMB'000</b>	2005 Audited RMB'000
Sales:		
— Sales of pharmaceutical products	<b>446,386</b>	430,544
— Sales of raw materials and by products	<b>366</b>	780
— Processing income	<b>829</b>	1,768
	<b>447,581</b>	433,092

**5. CAPITAL EXPENDITURE**

	<b>Property, plant and equipment</b> <i>RMB'000</i>	<b>Land use rights</b> <i>RMB'000</i>
<b>Six months ended 30 June 2005</b>		
<b>Opening net book amount 1 January 2005</b>	335,313	10,014
Additions	9,180	—
Depreciation and amortisation	(17,671)	(64)
<b>Closing net book amount 30 June 2005</b>	326,822	9,950
<b>Six months ended 30 June 2006</b>		
<b>Opening net book amount at 1 January 2006</b>	336,726	7,014
Additions	22,540	—
Depreciation and amortisation	(15,704)	(34)
Reversal of impairment	190	—
<b>Closing net book amount at 30 June 2006</b>	343,752	6,980

**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:

	<b>As at</b>	
	<b>30 June 2006 Unaudited RMB'000</b>	31 December 2005 Audited RMB'000
<b>Trade and bills receivables</b>		
Within 3 months	<b>133,615</b>	127,698
4-6 months	<b>24,790</b>	18,525
7-12 months	<b>9,273</b>	9,534
1-2 years	<b>2,845</b>	2,204
2-3 years	<b>2,139</b>	2,234
More than 3 years	<b>3,166</b>	13,638
	<b>175,828</b>	173,833
Less: provision for impairment of receivables	<b>(13,877)</b>	(22,507)
	<b>161,951</b>	151,326

**7. CAPITAL**

<b>Capital</b>	<b>Number of shares (thousands)</b>	<b>Ordinary shares RMB'000</b>	<b>Share premium RMB'000</b>	<b>Total RMB'000</b>
Balance at 1 January 2005 and 30 June 2005	10	1	—	1
Balance at 1 January 2006 and 30 June 2006	290,500	30,229	121,239	151,468

The total authorised number of ordinary share is 1,000,000,000 with par value of HK\$0.10 per share. All issued shares are fully paid.

**8. RESERVES**

	Capital reserve <i>(note a)</i> RMB'000	Statutory reserves <i>(note b)</i> RMB'000	Translation of minority difference RMB'000	Acquisition of minority interest RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance at 1 January 2005</b>	168,752	45,949	—	—	44,617	259,318
Profit for the half year	—	—	—	—	37,556	37,556
Dividends	—	—	—	—	(3,374)	(3,374)
<b>Balance at 30 June 2005</b>	168,752	45,949	—	—	78,799	293,500
<b>Balance at 1 January 2006</b>	168,752	59,753	—	—	120,752	349,257
Profit for the half year	—	—	—	—	41,615	41,615
Exchange difference	—	—	(2,352)	—	—	(2,352)
Dividends	—	—	—	—	(47,848)	(47,848)
Acquisition of minority interest <i>(note 16)</i>	—	—	—	(11,859)	—	(11,859)
<b>Balance at 30 June 2006 (unaudited)</b>	168,752	59,753	(2,352)	(11,859)	114,519	328,813

**(a) Capital reserve**

Capital reserve of the Company represents 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.

**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.

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

	<b>As at</b>	
	<b>30 June 2006 Unaudited RMB'000</b>	31 December 2005 Audited RMB'000
Within 1 year	656	732
Between 1 to 2 years	656	659
Between 2 to 5 years	1,967	1,680
More than 5 years	15,119	14,173
	<b>18,398</b>	17,244
Less: Current portion included in current liabilities	<b>(656)</b>	(732)
	<b>17,742</b>	16,512

**10. TRADE AND BILLS PAYABLES**

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

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

**11. BANK BORROWINGS**

	<b>As at</b>	
	<b>30 June 2006 Unaudited RMB'000</b>	31 December 2005 Audited RMB'000
Long-term loans		
— Due within one year	<b>5,000</b>	5,000
Short-term loans	<b>240,940</b>	108,000
Total borrowings	<b>245,940</b>	113,000
Representing:		
Unsecured	<b>138,000</b>	108,000
Secured	<b>107,940</b>	5,000
	<b>245,940</b>	113,000

As at 30 June 2006 and 31 December 2005, the net book amount of the Group's land use rights of approximately RMB6,980,000 and RMB4,000,000, respectively, was pledged as collateral for the Group's long-term loans.

As at 30 June 2006, the bank deposits with the amount of HK\$100,000,000 was pledged as collateral for the Group's Short-term loans amounted HK\$100,000,000.

Interest expense on bank borrowings for the six months ended 30 June 2006 is RMB3,294,000 (30 June 2005: RMB3,471,000).

**12. OPERATING PROFIT**

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

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

**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 as the Group had no assessable profit in Hong Kong for the six months ended 30 June 2006.

**13. INCOME TAXES** *(Continued)*

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

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

**14. EARNINGS PER SHARE**

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

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

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

**15. DIVIDENDS**

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

**16. BUSINESS COMBINATIONS**

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

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

Details of the Transaction are as follows:

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

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

**17. RELATED-PARTY TRANSACTIONS**

- (a) Apart from the acquisition of the 20% equity interest in Xi'an Lijun from Rejoy Group (Note 16), the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	Six months ended 30 June	
		2006 Unaudited RMB'000	2005 Audited RMB'000
Purchasing of raw materials and packaging materials	Rejoy Group Zhenjiang Pharmaceutical Co., Ltd. ("Zhenjiang Pharmaceutical")	—	5,143
	Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	11	60
	Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	798	496
	Global Printing Co.,Ltd. ("Global Printing")	6,953	4,057
		<b>7,762</b>	9,756
Sales of finished goods	Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	6,965	8,403
	Rejoy Baichuan	8,991	5,250
	Liaoning Huabang Pharmaceutical Co., Ltd. ("Huabang Pharmaceutical")	—	3,369
		<b>15,956</b>	17,022

**17. RELATED-PARTY TRANSACTIONS** *(Continued)*

(a) *(Continued)*

Nature of transactions	Name of related party	Six months ended 30 June	
		2006 Unaudited RMB'000	2005 Audited RMB'000
Provision of utilities from	Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	27,670	23,217
Sharing of administrative costs from	Xi'an Pharmacy Factory	6,500	6,341
Lease of land use rights from	Rejoy Group	2,730	2,730
Lease of office premises to	Rejoy Group	100	100
Provision of building construction services by	Xiyao Construction and Installation Co., Ltd. ("Xiyao Construction")	738	1,650
Guarantee of loans by a related party	Rejoy Group	—	10,000

**(b) Key management compensation**

	Six months ended 30 June	
	2006 Unaudited RMB'000	2005 Audited RMB'000
Salaries and other benefits	1,261	295
Contributions to state-sponsored retirement plans	25	19
	<b>1,286</b>	314

**17. RELATED-PARTY TRANSACTIONS** (Continued)

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

	<b>As at</b>	
	<b>30 June 2006 Unaudited RMB'000</b>	31 December 2005 Audited RMB'000
Amounts due from related parties included in trade receivables		
— Rejoy Medicine	<b>4,580</b>	4,879
— Rejoy Baichuan	<b>7,297</b>	1,627
— Huabang Pharmaceutical	<b>—</b>	1,733
	<b>11,877</b>	8,239
Amounts due from related parties included in prepayments, deposits and other receivables		
— Xi'an Rejoy Real Estate Co., Ltd.	<b>—</b>	30
— Rejoy Group	<b>—</b>	60
— Xi'an Rejoy Technology Investment Co., Ltd.	<b>59</b>	59
— Xi'an Pharmaceutical Factory	<b>3,539</b>	404
— Xiyao Construction	<b>128</b>	—
	<b>3,726</b>	553
Amounts due to related parties included in trade payables		
— Rejoy Baichuan	<b>—</b>	5
— Rejoy Packaging	<b>154</b>	177
— Global printing	<b>1,921</b>	1,656
	<b>2,075</b>	1,838

As at 30 June 2006, amounts due from and due to the related parties mainly arose from the above transactions as mentioned in note 17(a) and payments made by the Group and related parties on behalf of each other. These amounts are unsecured interest-free and are repayable within 1 year.

18. COMMITMENTS

(a) Capital commitments

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Purchase of property, plant and equipment		
— Contracted but not provided for	<b>8,636</b>	10,158

(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 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Not later than one year	<b>7,065</b>	6,821
Later than one year and not later than five years	<b>3,919</b>	6,824
	<b>10,984</b>	13,645