

Main Board Listing - Research

利君國際醫藥(控股)有限公司

Lijun International Pharmaceutical (Holding) Co., Ltd. [Stock Code: 2005]

Global Coordinator, Sole Bookrunner and Lead Manager : Guotai Junan Securities (Hong Kong) Limited
Sponsor : VXL Financial Services Limited

Sector : Health care

Business : Manufacturing of pharmaceutical products

<p>Total share offer: <u>70,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 7,000,000 shares (10%)</p> <p>Placing: 63,000,000 shares (90%)</p> <p>Greenshoe: 10,500,000 shares (15%)</p>	<p><u>Business of Lijun International ("the Group")</u></p> <p>The Group is principally engaged in the research, development, manufacture and sale of a wide range of pharmaceutical products. It ranked among the top 100 pharmaceutical manufacturers of 2004 in terms of revenue according to the statistics of the China Pharmaceutical Enterprises Management Association.</p> <p>The Group's products are used in the treatment of various diseases, in particular, microbial infection and cardiovascular disease. The Group is renowned for the production of antibiotics that include mainly macrolides and cephalosporins for the treatment of various microbial infections. <i>Lijunsha</i> is the major antibiotics products of the Group and its sales represented approximately 61.8%, 59.1%, 54.2% and 47.0% of the Group's total sales for the three years ended 31st December 2004 and the six months ended 30th June 2005.</p> <p>With the aim to diversify the Group's product range, it took over Shaanxi Heng Xin Tang in April 2003 that later obtained approvals for the production of more than 90 Chinese medicines in the PRC. Out of these 90 Chinese medicines, 55 of which are included in the Insurance Catalogue in China.</p>
<p>Price: HK\$1.98 – HK\$2.20 per share</p> <p>Market Cap.: HK\$554.4 million – HK\$616.0 million</p> <p>Pro Forma FY2005 P/E: 6.51x – 7.23x</p> <p>Pro Forma NTA / share: HK\$1.42 – HK\$1.47</p> <p>Staffing: 2,602</p>	
<p>HK Public Offer period: 2nd December 2005 – 7th December 2005</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong) Limited</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 20th December 2005</p>	

Major Shareholders after Listing

Grand Ocean Shipping Company Ltd. [Interest via Victory Rainbow Investment Limited (BVI)]	18.75%
Present and former employees of the Group [Interest via Prime United Industries Limited (BVI)]	44.28%
Management of Xian Lijun [Interest via Success Manage International Limited (BVI)]	7.98%
Xian Sanjiang [Interest via Triuniverse Group Limited (BVI)]	1.34%
Xian Combel [Interest via Fame World Investments Limited (BVI)]	0.89%
Shenzhen Jinhua Co., Ltd. [Interest via Flying Success Investments Limited (BVI)]	1.34%
Liaoning Huabang [Interest via Bondwide Trading Limited (BVI)]	0.42%
	<u>75.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$123.3 million.

(Assuming an issue price of HK\$2.09 per share, which is the mid-point of the indicative price range and that the Over-allotment Option is not exercised)

	HK\$ million
To set up three new production lines for production of new types of finished medicines and health care products and expand the production capacity of lyophilized powder for injection	85.6
To finance the improvement of existing products and production technology of Chinese medicines, the development of new forms of Chinese medicines, and the promotion of the brand name of the Group's Chinese medicines	19.2
To finance the enhancement and expansion of the Group's distribution network	9.2
To set up centralised information and management systems for its sales networks	5.8
Additional working capital of the Group	3.5
Total	123.3

Financial Highlights

	Year ended 31 st December			6 months ended 30 th June	
	2002	2003	2004	2004	2005
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	860,863	896,307	903,006	457,531	433,092
Gross profit	467,140	478,536	453,688	239,850	214,268
Operating profit	118,024	106,988	138,503	70,768	62,237
Net profit	76,024	87,734	109,061	55,524	46,608

Strengths/Opportunities

- ✓ The Group's flagship product, Lijunsha, was awarded "Well-known Trademark" and "Ten Most Favoured Brands Elected by the Public" in the PRC. This strong brand recognition provides the Group a foothold for future business expansion.
- ✓ The Group has an extensive distribution network with about 404 major distributors in the PRC covering approximately 25 provinces and four centrally administrative municipalities.
- ✓ As many smaller scale manufacturers fail to obtain Good Manufacturing Practice certifications that are required under PRC laws for producing pharmaceutical products, it will lessen competition for the Group.
- ✓ Pricing of this IPO at FY2005E PER of 6.51-7.23x is not demanding when compares to other players such as China Shineway (2877) and China Pharmaceuticals (1093), which are trading at FY2005E PER of 9.42x and 10.00x respectively.

Weaknesses/Threats

- × Trademark infringement and counterfeit products that prevail in the PRC could damage the reputation of the Group's products and adversely affect its business.
- × A large portion of the Group's products are subjected to the price control by price administration authorities, i.e. 83.7%, 85.5%, 83.3% and 76.5% of the Group's total revenue for the three years ended 31st December 2004 and the six months ended 30th June 2005. If the authorities reduce the ceiling prices of its products, the Group's operating margin that already came down from 15.3% in December 2004 to 14.4% in June 2005 could risk further decline.

Recommendation: Unexciting