利君國際醫藥(控股)有限公司
**Lijun International Pharmaceutical (Holding) Co., Ltd.**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 2005)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

On behalf of the board (the "Board") of directors (the "Directors") of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2009.

## 1. RESULTS AND DIVIDEND PAYMENT

In 2009, under the major background of global financial difficulties brought by global financial crisis, the Group was able to overcome the difficulties, seized the opportunities, expanded continuously the scale of selling dominant and competitive products, increased its market share, accelerated the innovation of products and technology and reduced operating costs. Hence, the Group's operation results had achieved its best since its listing, with the Group's profits achieved a significant growth. During the year, the Group's revenue amounted to HK$1,739,628,000, representing an increase of 9.3% as compared to last year; the operating profit of the Group increased by 112.1% as compared to last year, amounted to HK$280,780,000. Profit attributable to equity holders of the Company increased by 111.6% to HK$216,095,000 as compared to last year.

The Board recommended the payment of a final dividend of HK$0.02 per share. Together with an interim dividend of HK$0.02 per share, total dividends for the year were HK$0.04 per share.

## 2. REVIEW OF OPERATING RESULTS

### Revenue

For the year ended 31 December 2009, the revenue of the Group amounted to approximately HK$1,739,628,000, representing an increase of 9.3% as compared with HK$1,591,028,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2009 is set out as follows:

| | **2009** | | 2008 | | **Change** |
|---|---|---|---|---|---|
| | ***HK$'000*** | *%* | *HK$'000* | *%* | *%* |
| Intravenous Infusion Solution | **659,715** | **37.9** | 573,583 | 36.1 | 15.0 |
| (Including: PP Plastic Bottle Infusion Solution | **268,063** | **15.4** | 220,979 | 13.9 | 21.3 |
| Non-PVC Soft Bag Infusion Solution) | **154,425** | **8.9** | 101,437 | 6.4 | 52.2 |
| Antibiotics | **717,195** | **41.2** | 669,570 | 42.1 | 7.1 |
| (Including: Lijunsha | **438,155** | **25.2** | 427,838 | 26.9 | 2.4 |
| Paiqi) | **112,201** | **6.4** | 90,426 | 5.7 | 24.1 |
| Non-antibiotics finished medicines | **261,704** | **15.0** | 236,692 | 14.9 | 10.6 |
| (Including: Dobesilate | **64,017** | **3.7** | 48,268 | 3.0 | 32.6 |
| Lixiding | **24,762** | **1.4** | 19,152 | 1.2 | 29.3 |
| Sales of bulk pharmaceuticals | **97,833** | **5.6** | 109,020 | 6.8 | (10.3) |
| Others | **3,181** | **0.3** | 2,163 | 0.1 | 47.1 |
| **Total** | **1,739,628** | **100** | 1,591,028 | 100 | 9.3 |

*(1) Product marketing*

**1. By further optimizing the product and sales structure of intravenous infusion solutions, we attained a sustainable increase in market share and profitability**

In 2009, sales revenue of PP plastic bottle and non-PVC soft bag infusion solution with higher added value representing a ratio of 71% of the Group's total sales revenue of infusion solution, up by 7% over last year. The ratio of soft-package and therapeutic intravenous infusion product to total sales revenue had continued to increase. In 2009, profit of infusion solution products accounted for 68% of the Group's profit. Whilst maintaining and consolidating our high end market of plastic bottle and soft bag infusion solution, a series of products like Ambroxol, Amino Acid, Dextran and Mannitol was gradually forming its own product series through implementing a tailor-made product development and marketing strategy. With our distinct product features, obvious cost competitive strengths, the momentum of brand influence keeps on increasing.

In 2009, while maintaining a growth in our infusion solution product for domestic business, our foreign sales had also achieved satisfactory development. Our 16 categories of product with 30 types of specifications had successfully registered in 11 countries like Mongolia, Vietnam, Uzbekistan and Turkmenistan, and our products were sold in nearly 40 countries and regions in Asia, Africa and Europe with export trading value of US$5,880,000.

2. **Antibiotics preparation product business showed an encouraging surging momentum**

Sales of our leading branded product, Lijunsha, had recorded its best in recent years. Our strategic introduction of the new 20s Lijunsha tablet specifications in September 2009, was successfully launched and achieved cash sales of RMB75,420,000 in a short period of 4 months. Through stringent control and adopting a series of measures, significant improvement of our 24s Lijunsha tablet was seen after years of serious market pricing issue, and had ensured the on-going healthy development of this major branded product. Settlement of accounts receivables on Lijunsha amounted to over RMB500,000,000, a growth of 10.7% on a year-on-year basis and accounts receivables reduced by RMB57,000,000.

By adopting the "Brand Penetration" and "Conference Marketing" approach and implemented rapid and aggressive strategies for Paiqi series, we focused ourselves in maintaining the hospital, clinic and primary community end-user markets. Sales for the year achieved a breakthrough of over RMB100,000,000 for the first time, with a year-on-year growth of 24.1%, demonstrating a sound momentum. The business of Cephalosporin, Limaixian and Erythroimycin are operating steadily.

3. **Non-antibiotics pharmaceutical products were developing rapidly**

Through our impulsive academic promotion, the settlement of accounts receivables on Dobesilate had exceeded RMB65,000,000, a year-on-year growth of 26.3%. Sales of Lixiding was RMB21,820,000, an increase of 29.3% as compared with last year; batch of new key products like Ambroxol and Gliclazide were forming its economies of scale advantage. The yearly settlement of accounts receivables on general medicines was RMB245,000,000, a year-on-year growth of 6.5%. Out of the State's Essential Drug List which contains 307 products, we have 84 products enlisted.

4. **Sales of OTC products were growing rapidly**

Especially for the new product "Kehao" which can clear lung, ease cough and relieve expectoration, its annual sales represented a year-on-year growth of 59%. Annual sales of Weikoujia VC effervescent tablet represented a year-on-year growth of 102%. The awareness and influence of the new launch product, Lijungai, was improving and was the only calcium product listed in the purchasing catalogue for sports nutrients of General Administration of Sport of China. Sales and receivables settlement of other new products of OTC series showed a relatively rapid growing momentum. Well-planned new influenza drug "Haogan" was launched into the market in the fourth quarter of 2009 and sales in trial selling regions showed relatively encouraging results.

***(2) New product development***

It has always been the strategy of the Group to stress the importance in the research and development of new products, continuously pushing forward in improving our technology, techniques and products, and accelerate the commercialization of new products and technological achievements.

1. Our corporate quality inspection center and open-end research and development center for new medicines, established in Shijiazhuang, were officially open and are equipped with first-class national advanced facilities. The co-construction of the Shaanxi Provincial Innovative Pharmaceutical Preparation Engineering Technological Center between Xi'an Lijun and The Fourth Military Medical University was completed, creating better laboratory environment for the development of new medicines and new technology advancement.

2. During the year, the Group obtained 6 production permits for its new products and 4 national invention patents. The Company received a total project fund of RMB3,700,000 from the government for the commercialisation of 4 new products. At the same time, Xi'an Lijun and Shijiazhuang No. 4 Pharma, had both obtained the high-tech enterprise certification recognition and shall entitle to enjoy a 15% preferential income tax policy in next three years.

3. As for Arbidol Hydrochloride Capsules (Enerxin) (the newly approved State Class II new medicine), it was certified by the State Key Laboratory regarding its efficacy in inhibiting Influenza A (H1N1) virus with clinically low costs, safe and reliable usability and widely acknowledged by market.

4. By leveraging on our research and development capability, the Group has also undertaken the "Eleventh Five-Year" technology support key project subject of "Safety Research Study on Medicines and Packaging Materials Compatibility" of the State and Hebei Province, and also Shaanxi Province's "Eleventh Five-Year" aggressive program of project development of Lingzhihong Capsule which can lower blood glucose and lipid level, and they are expected to make a breakthrough in 2010.

***(3) Brand enhancement***

During the 60th anniversary of the founding of the People's Republic of China in 2009, CCTV organized with about one hundred nationwide media to select and invite many nationwide authoritative experts to judge, and "Lijun", being the only western medicine enterprise in the country that was awarded as the "CCTV's 60 Brands in 60 Years". The Group's "Shimen" trademark was recognized as a "Chinese Well-known Trademark" by State Administration of Industry and Commerce, and this is the first well-known trademark in infusion solutions industry in the country. Up to now, the Group owns three "Chinese Well-known Trademarks": Lijunsha, Lijun and Shimen. Lijunsha has been successively awarded "Brand with Highest Recommendation Rate by Chinese Drugstore Attendants" for the third time in a row. Xi'an Lijun was rewarded "2009 Health in China - Outstanding Contribution Award" and Shijiazhuang No. 4 Pharma obtained the title of "Credit Evaluation on Chinese Enterprises - AAA Grade Credit Enterprise".

## 3. DEVELOPMENT OUTLOOK

Looking forward to 2010, the macroeconomic environment remains critical and the pharmaceutical industry will still be facing intense competition. However, the continuous increase in government's contributions to nationwide medical and public health, and market expansion of pharmaceutical industry due to new medical reform will also become new opportunities under this reform. The Group will grasp the opportunities and cope with challenges as follows:

### (I) Continue to intensify the structural adjustment of products, focus on creating and improving the "Three Major Business Segments", and enhance the Group's development vitality and further ability

#### *1. Consolidating and enhancing "Core Business Segment"*

**Firstly is the intravenous infusion solution business segment.** We further expand the production scale of intravenous infusion solution business and improve its quality. The Group will design and set up new production lines of plastic bottle intravenous infusion solutions according to EU standards, continue to maintain our domestic leading advantage of quality and efficiency of intravenous infusion solutions products. The Group will reduce the production and sales of conventional infusion solutions and greatly increase the market share of plastic bottle and soft bag infusion solutions as well as therapeutic infusion solutions where these varieties are with relatively higher added value, achieving sales volume of over 10 million bottles for each of Mannitol infusion and Metronidazole infusion. At the same time, with the advantages of using self-produced raw materials of Hydroxyethyl Starch, the Group will substantially increase the sales of its infusion variety. The sales volume of plastic bottle and soft bag infusion solutions are planned to increase by 15% and 65% respectively over last year.

**Secondly is the antibiotics business segment.** We should seize the opportunities of our leading competitive products Lijunsha in which is its problems leftover last year were being solved, its increasing market price and growing confidence of our agents. While continuing to expand our market management and control, paying attention to second-tier distributors in conducting thorough "year of end-user" activities, establishing strong distribution network and large end-user network, we will strive to achieve "both price and volume increases" for the 24s Lijunsha, and endeavour to achieve stable growth for 24s and 20s Lijunsha tablets. With the sales revenue of Paiqi Series achieving over RMB100,000,000, we will try our best to expand its sales again in reaching another peak. We target the sales of cephalosporin powder injection to increase significantly during this year, reaching RMB100,000,000 of sales for this antibiotics preparations.

***2. Developing and establishing "fast growth business segment"***

**Firstly is the cardiovascular and cerebrovascular preparations business segment.** The target sales revenue is RMB100,000,000 for this year. The Group has devoted tremendous resources to our premier brand in microvascular medicine, "Dobesilate", in recent years. While further strengthen our efforts in the development of hospital market, achieve steady growth in sales, we will expand into OTC market, to achieve stable growth for this "double span" product. At the same time, the target sales revenue of this product, together with that of Lixiding, a new hypertensive medicine, is over RMB100,000,000 for the year, forming another scale sales in cardiovascular and cerebrovascular business segment in the Group.

**Secondly is the featured new product, OTC and health care product segment.** We will devote special resources to enable Arbidol Hydrochloride Capsules (Enerxin) being listed in national recommended medicines for influenza prevention. Haogan influenza drug will be operated according to the requirements of famous variety and well-known brand, hospital and drugstores act in concert, reinforce marketing and promotion activities, in order to be "Top 10 influenza drug brands" in China. Featured new

OTC products, namely Kehao and Weikoujia, will be allocated with more resources in conducting various marketing and promotion activities, aiming at boosting its sales to surpass the RMB10,000,000 mark for each single product as soon as possible. Top quality health care products, Lijungai and Shengtai oral solutions, both of them having high-technology patent and intellectual property right, have been listed on the purchasing catalogue for sports nutrients of General Administration of Sport of China. We will explore new selling methods like setting up image stores plus data base marketing for having more flexibility in marketing and promotion activities, develop loyal consumer group step by step, and therefore achieving significant breakthrough in sales volume. Many new products, including oral intake Zijin soft capsules for improving skin quality, removing speckle and "keeping vitality", Lingzhihong oral liquid for liver protection and lowering blood glucose level, and Easy Kexin for lead expelling and brain protection will be launched into market this year and will become our new growing products.

***3. Aggressively expanding "basic business segments"***

**Firstly is the sales of general medicines business segment.** We will aggressively expand our general medicines to primary end-user markets, strength the advantage for key products, tactfully adopt marketing plan for potential products to further expand their sales volume. By leveraging on the advantage of more varieties being listed on essential drug list, we will focus on tendering and supplemental activities; and achieve new growth in sales volume by simplified packing provided directly to primary end-users.

**Secondly is the foreign trade business segment.** While developing domestic market well, we will also actively expand ourselves into overseas markets. We will expand the registrations of preparations products in foreign countries, widen our export channels in foreign trade, strengthen the market development in Southeast Asia and Eastern Europe, with the objective of reaching a breakthrough in gross foreign trade volume of the Group of over RMB100,000,000.

**(II) Accelerating the construction of new projects and research and development of new products, driving the change of economic development pattern, achieving sustainable development of the Group**

1. By implementing "Project driven strategy" to promote the upgrading of the Group's business. Shijiazhuang No. 4 Pharma plans to invest the construction of a new modernized preparation plan and supporting logistics center, of which the dual-port soft bag infusion production project will be added to enrich its project in Hebei Province production. It is expected that the production will be ready by the fourth quarter of 2010, and we will manage the setting up of the pharmaceutical ingredients project in producing an annual capacity of 1,000 tonnes of Hydroxyethyl Starch 40. Xi'an Lijun will implement to further expand production in solid preparation, lyophilized powder injection and liquid injection in time to solve the shortage of production capacity in tablets, lyophilized powder injection and liquid injection.

2. With our research institute , post-doctoral workstation in scientific research, national technology center and newly-constructed research & development building in Xi'an and Shijiazhuang for new medicines, we will strengthen our co-operation with scientific research institutions, introduce pioneers in scientific technology and post-doctoral research fellows and establish expert database in science and technology to improve continuously our capabilities in research and development.

3. Managing our focus in research and development of new products, accelerate application and approval processes of key new products, endeavor to obtain the production permits for its 12 new products, including Compound Metformin Hydrochloride and Glipizide Tablets, Lingzhihong Capsules, Radix Notoginseng Capsules of Radix Panacis Quinquefolii and Compound Mannitol Injection. At the same time, we will perfect the development and application of our three core products including Type 1.1 new drug for curing Alzheimer's disease, Type 1.5 new drug for anti-influenza and gastric mucosal protection functions with the objective of achieving innovative breakthrough this year. We will strive to carry out the application works for the pharmaceutical ingredients of Hydroxyethyl Starch 200, Hydroxyethyl Starch 130, Arbidol Hydrochloride and Cefixime Orally Disintegrating Tablets, Cetirizine Hydrochloride Tablets, and to strengthen the reserve capacity of new products and dosage form in oral preparation, suppository and pharmaceutical ingredients.

**(III) Proactively arranging and seeking merger and acquisition projects and manage capital operation decently to further expand the overall scale and capability of the Group**

In the future, the Group will proactively seek merger and acquisition projects to achieve its development exponentially. These projects are expected to optimize our product chains, strengthen our marketing network and enhance our focus on key products.

In general, we have many advantages in products and brands, variety of resources and quality assurance, huge marketing network and strong research and development capability. In addition, our operating team has extensive management experience and innovativeness, research and development and investment of new products, launch and establishment of new projects. All of these will bring promising development prospects for the Group in the future.

## 4. QUARTERLY REPORTING

In order to enable investors and the public to better appraise the position and business performance of the Group in time and effectively, we have adopted a new policy of announcing the unaudited operational updates of the Group on a quarterly basis, with effect from the first quarter of 2010. An announcement which sets out the unaudited operational summary for the Group for the first quarter ended 31 March 2010 is expected to be published before end of April 2010.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2009*

*(All amounts in HK$ unless otherwise stated)*

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Revenue | 3 | **1,739,628** | 1,591,028 |
| Cost of sales | 10 | **(880,264)** | (863,496) |
| **Gross profit** | | **859,364** | 727,532 |
| Selling and marketing costs | 10 | **(424,433)** | (389,091) |
| General and administrative expenses | 10 | **(175,555)** | (221,817) |
| Other gains – net | 3 | **21,404** | 15,780 |
| **Operating profit** | | **280,780** | 132,404 |
| Finance income | 4 | **1,331** | 2,100 |
| Finance costs | 4 | **(41,114)** | (41,222) |
| Finance costs – net | | **(39,783)** | (39,122) |
| **Profit before income tax** | | **240,997** | 93,282 |
| Income tax (expense)/credit | 5 | **(24,803)** | 8,914 |
| **Profit for the year** | | **216,194** | 102,196 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **216,095** | 102,106 |
| Minority interest | | **99** | 90 |
| | | **216,194** | 102,196 |
| **Earnings per share for profit attributable to the equity holders of the Company** (expressed in HK$ per share) | | | |
| – Basic | 6 | **0.106** | 0.050 |
| – Diluted | 6 | **0.105** | 0.050 |
| **Dividends** | 7 | **82,938** | 32,432 |

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2009*

*(All amounts in HK$ unless otherwise stated)*

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | | **209,247** | 214,036 |
| Property, plant and equipment | | **823,174** | 792,855 |
| Intangible assets | | **550,225** | 566,440 |
| Deferred income tax assets | | **17,037** | 15,626 |
| Available-for-sale financial assets | | **147** | 146 |
| | | **1,599,830** | 1,589,103 |
| **Current assets** | | | |
| Inventories | | **229,377** | 225,783 |
| Trade and bills receivables | *8* | **408,394** | 414,103 |
| Financial assets at fair value through profit or loss | | **87** | 2,608 |
| Prepayments, deposits and other receivables | | **68,945** | 44,165 |
| Pledged bank deposits | | **8,662** | 16,232 |
| Cash and cash equivalents | | **184,964** | 219,453 |
| | | **900,429** | 922,344 |
| **Total assets** | | **2,500,259** | 2,511,447 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | **48,894** | 46,959 |
| Reserves | | | |
| – Proposed final dividend | | **42,398** | 20,270 |
| – Others | | **1,533,484** | 1,301,615 |
| | | **1,624,776** | 1,368,844 |
| **Minority interests** | | **1,044** | 945 |
| **Total equity** | | **1,625,820** | 1,369,789 |

## CONSOLIDATED BALANCE SHEET

*As at 31 December 2009*

*(All amounts in HK$ unless otherwise stated)*

| | Note | **2009** | 2008 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **78,172** | 62,428 |
| Convertible bonds | | **–** | 132,720 |
| Deferred income tax liabilities | | **28,474** | 37,019 |
| Deferred revenue | | **4,657** | 4,649 |
| Long-term payables | | **15,189** | 15,661 |
| | | **126,492** | 252,477 |
| **Current liabilities** | | | |
| Trade and bills payables | *9* | **166,259** | 143,046 |
| Advanced receipts from customers | | **16,067** | 15,978 |
| Accruals and other payables | | **116,577** | 195,876 |
| Income tax payable | | **13,248** | 6,317 |
| Borrowings | | **435,796** | 527,964 |
| | | **747,947** | 889,181 |
| **Total liabilities** | | **874,439** | 1,141,658 |
| **Total equity and liabilities** | | **2,500,259** | 2,511,447 |
| **Net current assets** | | **152,482** | 33,163 |
| **Total assets less current liabilities** | | **1,752,312** | 1,622,266 |

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(All amounts in HK$ unless otherwise stated)*

**1. Basis of preparation**

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

***Changes in accounting standards and interpretations***

*(a) New and amended standards adopted by the Group*

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

- HKFRS 7, "Financial Instruments – Disclosures" (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on operating results, financial position or comprehensive income of the Group.

- HKAS 1 (revised), "Presentation of financial statements" – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The consolidated financial statements have been compiled as required by the revised standard retrospectively.

- HKFRS 2 (amendment), "Share-based payment" (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and the Company has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendment does not have a material impact on the Group's or Company's financial statements.

- HKFRS 8, "Operating segments" – effective 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has adopted HKFRS 8 since 1 January 2009, which did not result in any increase in the number of reportable segments. The segments applied in the previous consolidated financial statements were consistent with the internal reporting provided to the chief operating decision-maker.

- The standards, amendments and interpretations noted below had no impact on the Group's operation results, financial position or comprehensive income.

| | |
|---|---|
| HKFRS 1 and HKAS 27 Amendment | Cost of an investment in a subsidiary, jointly controlled entity or associate |
| HKAS 32 Amendment and HKAS 1 Amendment | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HK (IFRIC) 13 | Customer Loyalty Programmes |
| HK (IFRIC) 15 | Agreements for the Construction of Real Estate |
| HK (IFRIC) 16 | Hedges of a Net Investment in a Foreign Operation |
| HK (IFRIC) 18 | Transfers of Assets from Customers (applied for transfers of assets after 1 July 2009) |

Detailed changes in accounting policies are disclosed in annual report 2009.

## 2. Segment information

The chief operating decision-maker has been identified as the executive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

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

Unallocated operating loss mainly contributed by corporate expenses.

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

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

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

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2009 is as follows:

| | **Intravenous infusion solution** | **Antibiotics and others** | **Unallocated** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Revenue** | 659,715 | 1,079,913 | – | 1,739,628 |
| **Operating profit/(loss) segment results** | 169,876 | 122,194 | (11,290) | 280,780 |
| Finance income | 202 | 1,016 | 113 | 1,331 |
| Finance costs | (11,803) | (11,282) | (18,029) | (41,114) |
| **Profit before income tax** | 158,275 | 111,928 | (29,206) | 240,997 |
| Income tax expense | (10,723) | (14,080) | – | (24,803) |
| **Profit for the year** | 147,552 | 97,848 | (29,206) | 216,194 |

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2008 is as follows:

| | **Intravenous infusion solution** | **Antibiotics and others** | **Unallocated** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Revenue** | 573,583 | 1,017,445 | – | 1,591,028 |
| **Operating profit/(loss) segment results** | 113,020 | 50,745 | (31,361) | 132,404 |
| Finance income | 238 | 1,488 | 374 | 2,100 |
| Finance costs | (11,123) | (17,399) | (12,700) | (41,222) |
| **Profit before income tax** | 102,135 | 34,834 | (43,687) | 93,282 |
| Income tax (expense)/income | (4,809) | 13,198 | 525 | 8,914 |
| **Profit for the year** | 97,326 | 48,032 | (43,162) | 102,196 |

The segment assets and liabilities at 31 December 2009 are as follows:

| | **Intravenous infusion solution** | **Antibiotics and others** | **Unallocated** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Total assets** | 1,435,431 | 1,045,192 | 19,636 | 2,500,259 |
| **Total liabilities** | 385,241 | 401,197 | 88,001 | 874,439 |

The segment assets and liabilities at 31 December 2008 are as follows:

| | **Intravenous infusion solution** | **Antibiotics and others** | **Unallocated** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Total assets** | 1,367,351 | 1,090,135 | 53,961 | 2,511,447 |
| **Total liabilities** | 364,093 | 478,107 | 299,458 | 1,141,658 |

## 3. Revenue and other gains – Group

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue: | | |
| – Sales of pharmaceutical products | **1,732,327** | 1,582,546 |
| – Sales of raw materials and by products | **3,079** | 4,645 |
| – Processing income | **1,826** | 1,773 |
| – Rental income | **2,396** | 2,064 |
| | **1,739,628** | 1,591,028 |
| Other gains – net: | | |
| – Gain on disposal of a subsidiary | **–** | 8,420 |
| – Gain on disposal of available-for-sale financial assets | **–** | 429 |
| – Gain on disposal of financial assets at fair value through profit or loss | **5,199** | 830 |
| – Change in fair value of financial assets at fair value through profit or loss | **–** | (2,116) |
| – Gain on redemption of convertible bonds | **9,043** | 5,745 |
| – Subsidy income | **5,687** | 2,442 |
| – Others | **1,475** | 30 |
| | **21,404** | 15,780 |
| | **1,761,032** | 1,606,808 |

## 4. Finance income and costs – Group

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Finance income – Interest income on bank deposits | **1,331** | 2,100 |
| Finance costs | | |
| – Interest expense of bank borrowings wholly repayable within five years | **26,096** | 27,344 |
| – Discount of bills receivable | **1,115** | 6,420 |
| – Convertible bonds | **13,703** | 13,442 |
| – Net exchange loss/(gain) on bank borrowings | **200** | (5,984) |
| | **41,114** | 41,222 |

## 5. Income tax expense/(credit) – Group

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

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

Subsidiaries established and operated in Mainland China are subject to Mainland China Enterprise Income Tax ("EIT") at a rate of 25% for the year ended 31 December 2009 (2008: 25%). Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd., being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd. both are entitled to the new high technology enterprises and enjoy 15% EIT rate for the year from 2010 to 2012.

The amounts of taxation charged/(credited) to the consolidated income statement represent:

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income taxation – Mainland China Enterprise Income Tax | **33,838** | (854) |
| Deferred taxation | **(9,035)** | (8,060) |
| | **24,803** | (8,914) |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using EIT rate as follows:

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax | **240,997** | 93,282 |
| Tax calculated at the weighted average domestic tax rate applicable to the subsidiaries | **60,249** | 23,321 |
| Tax exemption and reduction | **(34,134)** | (18,589) |
| Write-back of unnecessary provision | **–** | (16,090) |
| Expenses not deductible | **394** | 2,444 |
| Remeasurement of deferred tax – change in income tax rate | **(1,706)** | – |
| Tax expense/(credit) | **24,803** | (8,914) |
| Effective tax rate | **10.3%** | N/A |

Provision of EIT of HK$16,090,000 in respect of the period from 2000 to 2004 has been written back in 2008 as such provision is no longer considered as necessary.

## 6. Earnings per share – Group

### *(a) Basic*

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **216,095** | 102,106 |
| Weighted average number of ordinary shares in issue after adjustment for the sub-division of shares *(thousands)* | **2,032,713** | 2,026,842 |
| Basic earnings per share *(HK$ per share)* | **0.106** | 0.050 |

### *(b) Diluted*

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit used to determine diluted earnings per share | **216,095** | 102,106 |
| Weighted average number of ordinary shares in issue *(thousands)* | **2,032,713** | 2,026,842 |
| Adjustment for share options *(thousands)* | **19,732** | – |
| Weighted average number of ordinary shares for diluted earnings per share *(thousands)* | **2,052,445** | 2,026,842 |
| Diluted earnings per share *(HK$ per share)* | **0.105** | 0.050 |

During the year ended 31 December 2009, the dilutive effect of convertible bonds is anti-dilutive and therefore not included in the above calculation.

During the year ended 31 December 2008, the dilutive effect of convertible bonds and share options are anti-dilutive and therefore not included in the above calculation.

## 7. Dividends

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend of HK$0.02 (2008: HK$0.006) per ordinary share | **40,540** | 12,162 |
| Proposed final dividend of HK$0.02 (2008: HK$0.01) per ordinary share | **42,398** | 20,270 |
| | **82,938** | 32,432 |

The directors recommend the payment of a final dividend of HK$0.02 per ordinary share, totaling HK$42,398,000 in respect of the year ended 31 December 2009. Such a dividend is to be approved by the Company's shareholders at the upcoming Annual General Meeting. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

## 8. Trade and bills receivables – Group

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts receivable | **245,527** | 298,952 |
| Notes receivable | **181,205** | 137,916 |
| *Less:* provision for impairment | **(18,338)** | (22,765) |
| | **408,394** | 414,103 |

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **370,110** | 317,027 |
| 4 to 6 months | **22,107** | 68,229 |
| 7 to 12 months | **12,831** | 33,018 |
| 1 to 2 years | **13,741** | 16,547 |
| 2 to 3 years | **7,413** | 1,351 |
| More than 3 years | **530** | 696 |
| | **426,732** | 436,868 |

## 9. Trade and bills payables – Group

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **166,259** | 134,996 |
| Bills payable | **–** | 8,050 |
| | **166,259** | 143,046 |

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **120,694** | 108,658 |
| 4 to 6 months | **22,723** | 18,929 |
| 7 to 12 months | **12,325** | 6,648 |
| 1 to 3 years | **8,424** | 6,234 |
| More than 3 years | **2,093** | 2,577 |
| | **166,259** | 143,046 |

## 10. Expense by nature – Group

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials and consumables used | **636,326** | 655,377 |
| Changes in inventories of finished goods and work in progress | **9,072** | (15,051) |
| Staff costs | | |
| – Wages and salaries | **167,028** | 161,764 |
| – Pension costs | **16,472** | 15,327 |
| – Welfare expenses | **33,057** | 30,927 |
| – Share-based compensation | **–** | 15,346 |
| Sales commission | **200,512** | 151,162 |
| Utility expenses | **74,539** | 82,005 |
| Advertising expenses | **62,906** | 70,589 |
| Travelling, meeting and entertainment expenses | **39,328** | 40,855 |
| Operating leases rental expenses | **5,139** | 12,429 |
| Research and development expenses | **9,367** | 9,409 |
| Depreciation of property, plant and equipment | **72,556** | 68,250 |
| (Reversal of)/Write-down of inventories to their net realisable value | **(7,311)** | 6,601 |
| (Reversal of)/Provision for impairment of receivables | **(5,479)** | 13,699 |
| Provision for impairment of property, plant and equipment | **1,194** | – |
| Amortisation of intangible assets | **17,628** | 17,081 |
| Amortisation of land use rights | **5,259** | 1,861 |
| Auditors' remuneration | **2,270** | 3,387 |
| (Gain)/Loss on disposals of property, plant and equipment | **(361)** | 1,813 |
| Transportation expenses | **58,172** | 56,795 |
| Others | **82,578** | 74,778 |
| Total cost of sales, selling and marketing costs and general and administrative expenses | **1,480,252** | 1,474,404 |

## 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 31 December 2009, the cash and cash equivalents aggregated to HK$184,964,000 (2008: HK$219,453,000), comprising HK$7,413,000 (2008: HK$40,510,000) of cash and cash equivalents denominated in Hong Kong dollars, HK$176,551,000 (2008: HK$176,030,000) in RMB and HK$1,000,000 (2008: HK$2,913,000) in other currencies.

As at 31 December 2009, the Group has pledged bank deposits amounting to HK$8,662,000 (2008: HK$16,232,000) as guarantee of the bank borrowings, payables for property, plant and equipment and bills payables.

The carrying amounts of the borrowings (including convertible bonds) amounting to HK$513,968,000 (2008: HK$723,112,000) as at 31 December 2009, comprising HK$105,100,000 (2008: HK$159,500,000) of borrowings denominated in Hong Kong dollars and HK$408,868,000 (2008: HK$563,612,000) in RMB.

Gearing ratio (defined as bank borrowings and convertible bonds less pledged bank deposits and cash and cash equivalents divided by total equity less minority interests) decreased from 35.6% as at 31 December 2008 to 19.7% as at 31 December 2009.

Current ratio (defined as current assets divided by current liabilities) increased from 1.04 as at 31 December 2008 to 1.20 as at 31 December 2009.

## FOREIGN EXCHANGE RISK

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

## PLEDGE OF ASSETS

As at 31 December 2009, the net book amount of the Group's land use right of HK$64,854,000 (2008: HK$55,881,000), the net book amount of the Group's buildings, plant and machineries of HK$356,497,000 (2008: HK$245,190,000) and bank deposits of HK$8,662,000 (2008: HK$16,232,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payables.

## CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities.

## EXCHANGE RATE

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

| | |
|---|---|
| 1 January 2008 | 0.93638 |
| 31 December 2008 | 0.88189 |
| 31 December 2009 | 0.88048 |

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year.

Save for the allotment and issuance of an aggregate of 92,901,109 shares of the Company due to conversion of convertible bond 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 year ended 31 December 2009.

## SHARE OPTION SCHEME

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

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

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

| Expiry date | Exercise price per share | Share options | |
|---|---|---|---|
| | | **2009** | 2008 |
| | *HK$* | ***'000*** | *'000* |
| 6 August 2011 | 0.7 | **100,000** | 100,000 |

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the date of this announcement, being 30 March 2010, and at all times during the year ended 31 December 2009.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2009.

## DIVIDENDS

An interim dividend of HK$0.02 per share was declared on 28 August 2009 and paid on 6 November 2009.

The Directors recommend the payment of a final dividend of HK$0.02 per share which, together with the interim dividend of HK$0.02 per share, will result in total dividends of HK$0.04 (2008: HK$0.016) per share for the year ended 31 December 2009. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 28 May 2010 and payable on 25 June 2010 if it is approved.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules. During the year, the Company has complied with the applicable Code Provisions set out in the CG Code.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's annual results for the year ended 31 December 2009 in conjunction with the Group's external auditors.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 May 2010 (Tuesday) to 28 May 2010 (Friday) (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 May 2010 (Monday).

## ANNUAL GENERAL MEETING

The 2010 Annual General Meeting of the Company will be held at 11:00 a.m. on 28 May 2010 at Office 2809, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

## PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the Company's website (www.lijun.com.hk). The 2009 annual report containing all the information required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and will be despatched to the shareholders in due course.

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

On behalf of the Board
**Wu Qin**
*Chairman*

Hong Kong, 30 March 2010

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