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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 2011

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 2011.

1. RESULTS AND DIVIDEND PAYMENT

In 2011, the difficulties faced by the Group were unprecedented. On one hand, with intensifying domestic inflation, the prices of energy power, raw and auxiliary materials and labour costs had continued to rise, while on the other hand, the National Development and Reform Commission had substantially reduced the prices of pharmaceutical products with the nationwide launching of the essential medicine tender policy of “only lower price can prevail”. Hence, sales of the Group’s products was vastly affected, resulting a substantial drop of its overall gross profit margin. Meanwhile, city construction tax and supplemental education tax were imposed since 2011. Facing such uncontrollable and unfavourable profit reduction factors, the Group managed to expand the production and sales scale of its leading branded products, strive to reduce its production and operation costs, proactively adjust the management and growth models, and strive to overcome the adverse impact from policy change and market competition, for which both the Company and staff had made great contribution in this respect.

During 2011, the Group's revenue of its principal business amounted to HK\$2,155,000,000, representing an increase of 9.3% as compared with last year; among which, HK\$1,119,000,000 was from Xi'an Lijun, representing a decrease of 5.4% as compared with last year, and HK\$1,036,000,000 was from Shijiazhuang No.4 Pharma, representing an increase of 31.4% as compared with last year. The Group achieved a net profit of HK\$183,000,000, and after deducting provision for impairment of goodwill of HK\$224,000,000, the loss attributable to shareholders was HK\$41,400,000. The impairment of goodwill will not affect the cash flow position of the Group.

The Board recommended the payment of final dividend of HK\$0.02 per share for the second half year, and together with the interim dividend of HK\$0.02 per share, total dividend for the year were HK\$97,790,000, representing an increase of 1.8% as compared with the total dividend for last year of HK\$96,080,000.

2. REVIEW OF OPERATING RESULTS

Revenue

For the year ended 31 December 2011, the revenue of the Group amounted to approximately HK\$2,155,215,000, representing an increase of 9.3% as compared with HK\$1,971,657,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2011 is set out as follows:

	2011		2010		Change
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	%
Intravenous Infusion Solution	1,036,463	48.1	788,904	40.0	31.4
(Including: PP Plastic Bottle					
Infusion Solution	386,488	17.9	294,500	14.9	31.2
Non-PVC Soft Bag					
Infusion Solution)	366,459	17.0	246,021	12.5	49.0
Antibiotics	629,355	29.2	744,826	37.8	(15.5)
(Including: Lijunsha	382,888	17.8	471,362	23.9	(18.8)
Paiqi)	112,456	5.2	133,014	6.7	(15.5)
Non-antibiotics finished medicines	375,973	17.4	335,552	17.0	12.0
(Including: Dobesilate	92,596	4.3	81,971	4.2	13.0
Lixiding	31,791	1.5	35,510	1.8	(10.5)
Sales of bulk pharmaceuticals	107,799	5.0	100,654	5.1	7.1
Others	5,625	0.3	1,721	0.1	227.0
Total	<u>2,155,215</u>	<u>100</u>	<u>1,971,657</u>	<u>100</u>	<u>9.3</u>

(1) Product marketing

1. *Doubling production scale and further optimizing the structure of intravenous infusion solutions*

The infusion solution products became the severely-affected sector under the new essential medicine tender policy. However, the Group was successful in coping with the market changes and policy variation, and achieved remarkable results through enhancing the domestic market and expanding foreign trade sales. The Group had further optimized its infusion solution product structure with sales revenue of non-PVC soft bag infusion solution and PP plastic bottle infusion solution during the year increased by 49% and 31.2% respectively as compared with the same period last year. The Group's customer base is moving further towards the high-end.

Foreign trade export and processing continued to growth. The Group's product is exporting to 50 counties and regions with export sales reached US\$7,500,000, representing a year-on-year increase of 14.3%.

2. *Antibiotics business was severely affected by national price reduction policy*

In March 2011, the National Development and Reform Commission lowered the prices of numerous antibiotics. Among which, the prices of Lijunsha and Paiqi, our leading branded products, were lowered by 10% to 52% respectively. As a result, both sales and profit were reduced. Sales of Lijunsha dropped for the first time for more than 10 years to less than HK\$400,000,000, and sales of Paiqi products also failed to achieve the anticipated target. Amid the price reduction of Lijunsha, the Group determined to rectify Lijunsha's market by solving problems of price distortion in its market. At the same time, the Group vigorously developed the second-tier distribution to strive for achieving comprehensive commercial distribution and continuously enhancement of the terminal network systems, which had mitigated, to a certain extent, the impact from the national policy change on the Group's operation.

3. *Steady development of key brand preparation and general medicines*

The Group further strengthened the end-user market promotion of key products such as Dobesilate and Lixiding and made every effort to expand the market share of general medicines product market. Under the demise of severe market situation, sales of Dobesilate amounted to HK\$92,600,000 for the year, representing a growth of 13% as compared to last year. Facing the state's price reduction pressure of 23.8%, sales of Lixiding amounted to HK\$31,790,000 for the year, representing a decrease of 10.5% as compared to last year. Sales of new OTC products including Haogan influenza drugs, Lijungai, Weikoujia and Kehao amounted to HK\$20,790,000, representing an increase of 42% as compared to last year. Sales of general medicines amounted to HK\$424,000,000 for the year, representing an increase of 11% as compared to last year.

(2) New projects establishment and new products development

1. *Infusion solution capacity expansion project was completed and commenced operation*

During the year, the modernized soft-packaging infusion solution with an annual capacity of 500,000,000 bottles (bags) and its ancillary logistic project were fully completed and commenced production in March 2012. The modernized soft-packaging infusion solution and its logistics ancillary project were all designed for fully compliance with European Union certification standards. The project mainly produced new soft bag infusion solution products like single-outlet pipe and double-outlet double valve which doubled the production capacity of infusion solution. This project had greatly increased the supply capacity and competitiveness of the Group's soft-packaging infusion solution product in the market and helped to further consolidate its leading position in the industry, thereby laying an even stronger foundation for the future sustainable development of the Group.

2. *New product research and development was making progress*

Shijiazhuang No. 4 Pharma obtained four specifications add-in production permits successively, including Levofloxacin Lactate and Sodium Chloride Injection and Mannitol Injection, ten permits for production technique alteration and packaging materials registration, and one design patent. Shijiazhuang No. 4 Pharma completed the application and preparation methods of three invention patents such as Cefprozil Tablets and Cefdinir Capsules.

“New drug for curing Alzheimer’s disease” of Xi’an Lijun Pharmaceutical had obtained the authorization for compounds invention patent; “Technology Re-engineering on Erythromycin Ethylsuccinate Crystallization”, a project of “New Key Drug Project of Twelfth Five-Year”, had entered into a contract with the Ministry of Science and Technology of China; the “Duan Xue Liu Capsules” project was awarded the Third Prize of Xi’an Scientific and Technological Advancement; Dirithromycin Enteric-coated Tablets (0.25g specification) had obtained the clinical trial permit. “Compound Dextral Ibuprofen Sustained-release Double-layered Tablets”, a drug for curing trachea inflammation, and “Type 1.1 New Drug MeN061016-1”, a drug for curing vascular dementia had completed the application of a domestic invention patent for new indication.

(3) Impairment of goodwill

The goodwill was attributable to the Group’s acquisition of Shijiazhuang No. 4 Pharma in June 2007. According to the accounting standard, goodwill is tested for determining whether there is evidence for impairment every year. According to the data from 2012-2016 development projection of Shijiazhuang No.4 Pharma, and after the evaluation performed by the valuer, Jones Lang LaSalle, gross profit margin of infusion solution business is expected to decrease, so an provision for impairment of goodwill of HK\$224,000,000 is required. The provision for impairment will not affect the cash flow position of the Group, and we believe the infusion solution business will still make positive contributions to the Group.

3. DEVELOPMENT OUTLOOK

Looking forward to 2012, I believe the situation that the Group encounter will still be severe and the operation environment will become more difficult. There will be a further increases in price for raw materials and power and labor costs which will adversely affect our profit. Product selling price will continue to make downward adjustments due to the dual restrictions in national policy and market competition. The gross profit margin will be decreased and thus enterprises are facing the double challenges of survival and development. The Group will further enhance the marketing, economize costs in all aspects, reduce expenditure and develop better new products, in order to be prepared for surpassing this challenge as well as laying a solid foundation for market turnaround in the future.

(1) Product marketing

1. Expanding the scale of production and market share of infusion solution products

For this year, we will strive to realize full operation of new production lines and facilitate them to achieve the designed production scale. We will further expand the sales proportion of non-glass bottle infusion solution products and therapeutical infusion solution products and increase the production and sale for categories of infusion solutions in new packaging. While expanding the domestic market, we will enhance our overseas sales and focus on the market development in APEC and African countries.

2. Ensuring a steady growth for the sales of antibiotics categories

We will further enhance the second-tier distribution of our leading branded product, Lijunsha, on the basis of ensuring “right selling price in place” and strive to achieve comprehensive commercial sales. We will also put emphasis on the delivery and scale expansion in the region in which the tender was being awarded for Lijunsha capsules, enhance the distribution and end-user promotion of Lijunsha granules and strive to realize a steady growth for the overall sales of Lijunsha for the year.

We will leverage on the strengths of “Chinese Well-known Trademark” for Paiqi series and strengthen its efforts in promotion and enhance marketing towards the end-users. We will also focus on the development of potential sales for Paiqi oral intake series, proactively expand the end-user markets and strive to increase its sales. Based on the current actual market conditions, we will further study the improvement and adjustment of the packaging and pricing of Limaixian, enhance the academic promotion in hospitals and its sales growth in drugstores. We will operate Cephalosporin Powder Injection series based on scale marketing prudentially to ensure attaining our annual target.

3. *Strive for rapid growth in the sales of advantageous featured categories and general medicines*

While continuing to strengthen our efforts in the academic promotion in hospitals and clinics and securing the growth in the prescription sales for Dobesilate, we will also focus on expanding the drugstores OTC market. By strengthen our efforts in end-user promotion and marketing mainly through larger-sale drugstore chains, we are able to ensure a sales volume of exceeding the HK\$100,000,000 mark for this year. In addition to promoting the sales of the 25mg infusion solution of Lixiding, we will focus on the sales of 50mg infusion solution by intensifying our promotion and marketing effort in hospitals and departments, small promotion conference and national and provincial annual meeting, so as to strive for a new growth in its sales.

Haogan, Lijungai, Shengtai, Zijin, Weikoujia, Kehao, Lingzhihong as well as other featured OTC products should focus on the core vision of “End-users driven, profit driven and price control”, accelerate the establishment of agency layout and intensify the efforts in the promotion among consumer groups. We should also continue to host end-user promotion conference and put more emphasis on the follow-up housekeeping works and subsequent sales growth. We will promote direct negotiation, direct supply and direct agency with large-scale drugstores and strive to achieve breakthrough in sales growth of OTC for the year.

We will continue our persistence on products with relatively advantageous features in selling general medicine. Through active restructuring, promoting the sales of high margin products, attach great importance to tender work and achieve sales growth for tender winning products and continuous expansion of the end-use network, we assure sustainable sales and profit growth.

(2) New Products Development

Shijiazhuang No. 4 Pharma had obtained the Type 3.3 new drug certificates and production permits for the 2,000ml compound electrocular irrigating solution during the year. Glycine Irrigation Solution 2,000ml and other products are expected to obtain production permits. Our exclusive patented product, Shanhe Koufuye, and other oral liquids products will strive for approval for change of plastic package during the year. The raw materials and preparation for two new Type 3.1 mental and neuropathology drugs, which are under development, have been reported to SFDA and are expected to be approved for clinical research.

Xi'an Lijun Pharmaceutical is expected to obtain production permits for Edaravone raw materials and injection, Glipizide Tablets and the Nalmefene Hydrochloride raw material and injection and Compound Metformin Hydrochloride during the year. It will strive for obtaining the health food permits for Lingzhihong Capsules. Type 1 new drug Compound Alanyl Glutamine Double-layer Tablets will also strive for completing clinical trial application and Type 1 new drug Compound Dexibuprofen Sustained-release Double-layer Tablets is likely to pass the technology evaluation of the National Pharmaceutical Approval Centre. Loratadine Soft Capsule and Shengtai Capsule are closely follow up with the evaluation of the National Pharmaceutical Approval Centre.

In 2012, no matter how harsh the operation environment and how intense the market competition will be, in view of that the two major subsidiaries of the Group have many products with advantages and characteristics, coupled with many years of experience in marketing management and improving financial position, we are still full of confidence in our corporate development. With the Group's solid foundation and various strengths, we will be able to overcome the challenges ahead and achieve greater development, bringing fruitful returns to the investors eventually.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(All amounts in HK\$ unless otherwise stated)

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue	<i>3</i>	2,155,215	1,971,657
Cost of sales	<i>10</i>	(1,241,525)	(980,031)
Gross profit		913,690	991,626
Selling and marketing costs	<i>10</i>	(441,342)	(461,270)
General and administrative expenses	<i>10</i>	(466,783)	(215,429)
Other gains – net	<i>3</i>	7,581	10,066
Operating profit		13,146	324,993
Finance income	<i>4</i>	2,771	4,540
Finance costs	<i>4</i>	(18,111)	(23,852)
Finance costs – net		(15,340)	(19,312)
(Loss)/profit before income tax		(2,194)	305,681
Income tax expense	<i>5</i>	(39,183)	(44,992)
(Loss)/profit for the year		(41,377)	260,689
Other comprehensive income:			
Currency translation differences		86,639	63,740
Total comprehensive income for the year		45,262	324,429
(Loss)/profit attributable to:			
Equity holders of the Company		(41,401)	260,592
Non-controlling interests		24	97
		(41,377)	260,689
Total comprehensive income attributable to:			
Equity holders of the Company		45,195	324,295
Non-controlling interests		67	134
		45,262	324,429
(Losses)/earnings per share for (loss)/profit attributable to the equity holders of the Company (expressed in HK\$ per share)			
– Basic	<i>6</i>	(0.017)	0.113
– Diluted	<i>6</i>	(0.017)	0.113
Dividends	<i>7</i>	97,792	96,075

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

(All amounts in HK\$ unless otherwise stated)

	As at 31 December 2011 HK\$'000	As at 31 December 2010 HK\$'000
<i>Note</i>		
ASSETS		
Non-current assets		
Land use rights	220,433	215,565
Property, plant and equipment	1,444,819	994,067
Intangible assets	316,896	551,977
Deferred income tax assets	21,526	21,200
Available-for-sale financial assets	159	152
	<u>2,003,833</u>	<u>1,782,961</u>
Current assets		
Inventories	342,318	298,607
Trade and bills receivables	8 704,666	484,968
Financial assets at fair value through profit or loss	2,367	–
Prepayments, deposits and other receivables	128,933	176,733
Pledged bank deposits	4,443	30,531
Cash and cash equivalents	257,980	598,911
	<u>1,440,707</u>	<u>1,589,750</u>
Total assets	<u><u>3,444,540</u></u>	<u><u>3,372,711</u></u>
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	55,703	55,905
Reserves		
– Proposed final dividend	48,896	48,977
– Others	2,191,078	2,250,237
	<u>2,295,677</u>	<u>2,355,119</u>
Non-controlling interests	<u>616</u>	<u>1,178</u>
Total equity	<u><u>2,296,293</u></u>	<u><u>2,356,297</u></u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

(All amounts in HK\$ unless otherwise stated)

	As at 31 December 2011 <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>
<i>Note</i>		
LIABILITIES		
Non-current liabilities		
Borrowings	86,822	66,594
Deferred income tax liabilities	25,344	26,250
Deferred revenue	10,608	4,818
Long-term payables	10,548	15,058
	<u>133,322</u>	<u>112,720</u>
Current liabilities		
Borrowings	329,793	366,552
Trade and bills payables	259,986	206,322
Advanced receipts from customers	17,271	23,276
Dividends payable	6,050	–
Accruals and other payables	393,338	289,832
Income tax payable	8,487	17,712
	<u>1,014,925</u>	<u>903,694</u>
Total liabilities	<u>1,148,247</u>	<u>1,016,414</u>
Total equity and liabilities	<u>3,444,540</u>	<u>3,372,711</u>
Net current assets	<u>425,782</u>	<u>686,056</u>
Total assets less current liabilities	<u>2,429,615</u>	<u>2,469,017</u>

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK\$ unless otherwise stated)

1. Basis of preparation

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 financial assets 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.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

- HKAS 24 (Revised), “Related Party Disclosures” is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
 - The name of the government and the nature of their relationship;
 - The nature and amount of any individually significant transactions; and
 - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

		Effective date
HKFRS 7	Financial Instruments: Disclosures	1 January 2013
HKFRS 9	Financial Instruments: Classification and measurement	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HKAS 1	Presentation of financial statements	1 July 2012
HKAS 19	Employee benefits	1 January 2013

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

Detailed changes in accounting policies are disclosed in annual report 2011.

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, the decision-maker 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 was mainly attributable to 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.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

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 2011 is as follows:

	Intravenous infusion solution HK\$'000	Antibiotics and others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Revenue	<u>1,036,463</u>	<u>1,118,752</u>	<u>–</u>	<u>2,155,215</u>
Operating profit/(loss) segment results	174,033	81,620	(242,507)	13,146
Finance income	932	571	1,268	2,771
Finance costs	<u>(10,097)</u>	<u>(7,796)</u>	<u>(218)</u>	<u>(18,111)</u>
Profit/(loss) before income tax	164,868	74,395	(241,457)	(2,194)
Income tax expense	<u>(25,428)</u>	<u>(13,154)</u>	<u>(601)</u>	<u>(39,183)</u>
Profit/(loss) for the year	<u>139,440</u>	<u>61,241</u>	<u>(242,058)</u>	<u>(41,377)</u>

Other segment items included in the consolidated income statement for the year ended 31 December 2011 are as follows:

	Intravenous infusion solution HK\$'000	Antibiotics and others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amortisation of land use rights	1,840	3,848	–	5,688
Depreciation of property, plant and equipment	67,369	28,205	465	96,039
Amortisation of intangible assets	17,774	1,253	–	19,027
Impairment of goodwill	–	–	223,552	223,552
Impairment of inventories	–	280	–	280
Impairment of property, plant and equipment	–	2,394	–	2,394
Provision for impairment of receivables	107	2,448	–	2,555
Research and development expenses	<u>6,094</u>	<u>10,426</u>	<u>–</u>	<u>16,520</u>

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2010 is as follows:

	Intravenous infusion solution HK\$'000	Antibiotics and others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Revenue	<u>788,904</u>	<u>1,182,753</u>	<u>–</u>	<u>1,971,657</u>
Operating profit/(loss) segment results	202,319	143,940	(21,266)	324,993
Finance income	562	3,049	929	4,540
Finance costs	<u>(8,844)</u>	<u>(12,696)</u>	<u>(2,312)</u>	<u>(23,852)</u>
Profit/(loss) before income tax	194,037	134,293	(22,649)	305,681
Income tax expense	<u>(28,680)</u>	<u>(16,312)</u>	<u>–</u>	<u>(44,992)</u>
Profit/(loss) for the year	<u>165,357</u>	<u>117,981</u>	<u>(22,649)</u>	<u>260,689</u>

Other segment items included in the consolidated income statement for the year ended 31 December 2010 are as follows:

	Intravenous infusion solution HK\$'000	Antibiotics and others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amortisation of land use rights	1,652	3,747	–	5,399
Depreciation of property, plant and equipment	55,566	23,758	748	80,072
Amortisation of intangible assets	16,916	1,189	–	18,105
Impairment of inventories	–	708	–	708
Impairment of property, plant and equipment	–	2,169	–	2,169
Provision for/(reversal of) impairment of receivables	254	(1,341)	–	(1,087)
Research and development expenses	<u>3,709</u>	<u>9,513</u>	<u>–</u>	<u>13,222</u>

The segment assets and liabilities at 31 December 2011 are as follows:

	Intravenous infusion solution	Antibiotics and others	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	<u>2,074,263</u>	<u>1,254,941</u>	<u>115,336</u>	<u>3,444,540</u>
Total liabilities	<u>814,971</u>	<u>319,529</u>	<u>13,747</u>	<u>1,148,247</u>

The segment assets and liabilities at 31 December 2010 are as follows:

	Intravenous infusion solution	Antibiotics and others	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	<u>1,843,768</u>	<u>1,209,169</u>	<u>319,774</u>	<u>3,372,711</u>
Total liabilities	<u>554,886</u>	<u>422,793</u>	<u>38,735</u>	<u>1,016,414</u>

The total of non-current assets were as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total non-current assets other than deferred tax assets		
– Mainland China	1,951,922	1,760,111
– Hong Kong	1,211	1,650
Deferred tax assets	<u>21,526</u>	<u>21,200</u>
Total non-current assets	<u>1,974,659</u>	<u>1,782,961</u>

The chief operating decision-maker has also determined that no geographical segment information is presented as 100% of the Group's sales and operating profits are derived within the PRC and over 95% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

3. Revenue and other gains – Group

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

Revenue recognised is as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue:		
– Sales of pharmaceutical products	2,137,748	1,963,614
– Sales of raw materials and by products	4,421	993
– Processing income	7,359	5,055
– Rental income	2,076	1,995
– Royalty income	3,611	–
	<u>2,155,215</u>	<u>1,971,657</u>
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other gains – net:		
(Loss)/gain on disposal of financial assets at fair value through profit or loss	(3,580)	1,321
Loss on disposal of a subsidiary	(449)	–
Subsidy income	12,131	8,745
Change in fair value of financial assets at fair value through profit or loss	(521)	–
	<u>7,581</u>	<u>10,066</u>

4. Finance income and costs – Group

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Finance income – Interest income on bank deposits	<u>2,771</u>	<u>4,540</u>
Finance costs		
– Interest expense of bank borrowings wholly repayable within five years	22,072	23,476
– Discount of bills receivable	343	1,596
– Net exchange gain	<u>(4,304)</u>	<u>(1,220)</u>
	<u>18,111</u>	<u>23,852</u>

5. Income tax expense – 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.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No.4 Pharmaceutical Co., Ltd., the wholly owned subsidiaries of the Company, established and operate in Mainland China are subject to Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

For the year ended 31 December 2011 and 2010, both subsidiaries are qualified as high new tech enterprises and entitled to a 15% preferential CIT rate.

The amounts of taxation charged to the consolidated income statement:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current income taxation – Mainland China CIT	40,615	51,659
Deferred taxation	<u>(1,432)</u>	<u>(6,667)</u>
	<u>39,183</u>	<u>44,992</u>

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
(Loss)/profit before income tax	<u>(2,194)</u>	<u>305,681</u>
Tax calculated at the domestic tax rate of 15% (2010: 15%) applicable to the subsidiaries	(329)	45,852
Impairment loss on goodwill for which no deferred tax assets was recognised	33,533	–
Unrecognised tax losses	3,286	3,398
Tax exemption and reduction	(687)	(2,911)
Remeasurement of deferred tax – change in income tax rate	1,157	(1,874)
Expenses not deductible	<u>2,223</u>	<u>527</u>
Tax expense	<u>39,183</u>	<u>44,992</u>
Effective tax rate	<u>–</u>	<u>14.7%</u>

6. (Losses)/earnings per share – Group

(a) Basic

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
(Loss)/profit attributable to equity holders of the Company	<u>(41,401)</u>	<u>260,592</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>2,446,490</u>	<u>2,312,006</u>
Basic (losses)/earnings per share (<i>HK\$ per share</i>)	<u>(0.017)</u>	<u>0.113</u>

(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. Since the Company has no category of dilutive potential ordinary shares at 31 December 2011 and 2010, the diluted earnings per share is the same as basic earnings per share.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
(Loss)/profit used to determine diluted earnings per share	<u>(41,401)</u>	<u>260,592</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	<u>2,446,490</u>	<u>2,312,006</u>
Diluted (losses)/earnings per share (<i>HK\$ per share</i>)	<u>(0.017)</u>	<u>0.113</u>

7. **Dividends**

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interim dividend of HK\$0.02 (2010: HK\$0.02) per ordinary share	48,896	47,098
Proposed final dividend of HK\$0.02 (2010: HK\$0.02) per ordinary share	<u>48,896</u>	<u>48,977</u>
	<u>97,792</u>	<u>96,075</u>

The proposed final dividend in respect of the year ended 31 December 2011 of HK\$0.02 (2010: HK\$0.02) per ordinary share, amounting to a total dividend of HK\$48,896,000 calculated based on the 2,444,814,000 ordinary shares (2010: 2,448,864,000 ordinary shares after issuance of placing share) is subject to the approval of the forthcoming Annual General Meeting of the Company. 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 and share premium for the year ending 31 December 2012.

8. Trade and bills receivables – Group

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Trade receivables	390,520	314,604
Bills receivable	334,491	187,820
<i>Less: Provision for impairment</i>	<u>(20,345)</u>	<u>(17,456)</u>
	<u>704,666</u>	<u>484,968</u>

The fair values of trade and bills receivables approximate their carrying amounts.

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Within 3 months	627,850	441,976
4 to 6 months	29,746	28,462
7 to 12 months	34,451	9,000
1 to 2 years	15,380	9,212
2 to 3 years	3,900	9,808
More than 3 years	<u>13,684</u>	<u>3,966</u>
	<u>725,011</u>	<u>502,424</u>

9. Trade and bills payables – Group

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	222,981	175,791
Bills payable	37,005	30,531
	<u>259,986</u>	<u>206,322</u>

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:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	195,371	170,213
4 to 6 months	25,817	21,521
7 to 12 months	23,163	9,723
1 to 3 years	14,474	3,556
More than 3 years	1,161	1,309
	<u>259,986</u>	<u>206,322</u>

The Group's trade and bills payables were denominated in RMB.

10. Expense by nature – Group

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Raw materials and consumables used	907,855	749,899
Changes in inventories of finished goods and work in progress	(3,007)	(34,666)
Staff costs		
– Wages and salaries	220,318	202,892
– Pension costs	24,772	18,120
– Welfare expenses	35,765	37,979
Provision for impairment of goodwill	223,552	–
Sales commission	150,382	183,512
Utility expenses	124,060	91,604
Advertising expenses	63,175	67,493
Travelling, meeting and entertainment expenses	56,193	58,583
Operating leases rental expenses	3,894	3,689
Research and development expenses	16,520	13,222
Depreciation of property, plant and equipment	96,039	80,072
Write-down of inventories to their net realisable value	280	708
Write-down/(reversal of) impairment of receivables	2,555	(1,087)
Provision for impairment of property, plant and equipment	2,394	2,169
Amortisation of land use rights	5,688	5,399
Amortisation of intangible assets	19,027	18,105
Auditors' remuneration	3,600	3,000
Gain on sales of land use rights	–	(190)
Gain on disposals of property, plant and equipment	–	(1,063)
Transportation expenses	102,702	74,619
Tax expenses	28,129	9,306
Others	65,757	73,365
Total cost of sales, selling and marketing costs and general and administrative expenses	<u><u>2,149,650</u></u>	<u><u>1,656,730</u></u>

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 2011, the cash and cash equivalents aggregated to HK\$257,980,000 (2010: HK\$598,911,000), comprising HK\$50,688,000 (2010: HK\$316,387,000) of cash and cash equivalents denominated in Hong Kong dollars, HK\$204,418,000 (2010: HK\$280,987,000) in RMB and HK\$2,874,000 (2010: HK\$1,537,000) in other currencies.

As at 31 December 2011, the Group has pledged bank deposits amounting to HK\$4,443,000 (2010: HK\$30,531,000) as guarantee of payables for property, plant and equipment and bills payable.

The carrying amounts of the borrowings amounting to HK\$416,615,000 (2010: HK\$433,146,000) as at 31 December 2011, comprising HK\$151,412,000 (2010: HK\$80,590,000) of borrowings denominated in Hong Kong dollars and HK\$265,203,000 (2010: HK\$352,556,000) in RMB.

Gearing ratio (defined as total borrowings less cash and cash equivalents divided by total capital) increased from -7.6% as at 31 December 2010 to 6.5% as at 31 December 2011.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.76 as at 31 December 2010 to 1.42 as at 31 December 2011.

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 2011, the net book amount of the Group's land use right of HK\$50,025,000 (2010: HK\$65,449,000), the net book amount of the Group's buildings, plant and machineries of HK\$246,470,000 (2010: HK\$246,749,000) and bank deposits of HK\$4,443,000 (2010: HK\$30,531,000) were pledged as collateral for the Group's bank borrowings, payables for property, plant and equipment and bills payable.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

EXCHANGE RATE

As at 2011 and 2010, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2010	0.88048
31 December 2010	0.85093
31 December 2011	0.81070

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 4,050,000 shares in May 2011 and June 2011 which details are set out in the next paragraph, 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 2011.

During the year, the Company acquired an aggregate of 4,050,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at an aggregate consideration (including transaction costs) of HK\$6,756,518 with a view to benefit shareholders as a whole in enhancing the net assets value and earnings per share of the Company. All of the purchased shares were subsequently cancelled on 30 June 2011.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share <i>HK\$</i>	Lower price paid per share <i>HK\$</i>	Aggregate consideration <i>HK\$</i>
30 May 2011	1,150,000	1.68	1.66	1,926,053
31 May 2011	350,000	1.67	1.67	586,850
9 June 2011	<u>2,550,000</u>	1.68	1.60	<u>4,243,615</u>
	<u><u>4,050,000</u></u>			<u><u>6,756,518</u></u>

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 (“Share Option 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 Share Option Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option 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 Share Option 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 Share Option 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 Share Option Scheme. The total number of shares issued and to be issued upon exercise of all options granted under the Share Option Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

As at 7 August 2008, the Company granted 100,000,000 share options to directors and senior management of the Group, representing about 4.93% of the issued share capital as at the date immediately before the options were granted. The exercise price was HK\$0.7. As at 4 October 2010, all of the share options granted were exercised.

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 25 March 2012, and at all times during the year ended 31 December 2011.

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 2011.

DIVIDENDS

An interim dividend of HK\$0.02 per share was declared on 26 August 2011 and paid on 30 September 2011.

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 (2010: HK\$0.04) per share for the year ended 31 December 2011. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 25 May 2012 and payable on 11 June 2012 to shareholders whose names appear on the register of members of the Company at the close of business on 30 May 2012.

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 2011 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 2011 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 performed 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 Wednesday, 23 May 2012 to Friday, 25 May 2012, both dates inclusive, during which period, no transfer of Shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms 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, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 22 May 2012.

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, 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, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 30 May 2012.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of the Company will be held at 2:00 p.m. on 25 May 2012 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 2011 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, 23 March 2012

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