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利君國際醫藥(控股)有限公司

Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2005)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008.

1. RESULTS AND DIVIDEND PAYMENT

During the year, there was a fairly significant growth of the Group’s revenue. The Group’s revenue amounted to HK\$1,591,028,000, representing an increase of 39.6% as compared to last year. Due to various factors including price increase in raw materials and higher marketing costs for new products in the first half of the year, the operating profit of the Group decreased by 17.9%, amounted to HK\$132,404,000. Profit attributable to equity holders of the Company decreased by 14.6% to HK\$102,106,000 as compared to last year.

The Board recommended the payment of a final dividend of HK\$0.01 per share which, together with the interim dividend of HK\$0.006 per share, would result in total dividends of HK\$0.016 per share for the year.

2. BUSINESS REVIEW

For the year ended 31 December 2008, the revenue of the Group amounted to approximately HK\$1,591,028,000, representing an increase of 39.6% as compared with HK\$1,139,431,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2008 is set out as follows:

| | 2008 | | 2007 | | Change |
|---|-------------------------|-------------------|-------------------------|---------------------|--------------------|
| | <i>HK\$000</i> | % | <i>HK\$000</i> | % | % |
| Antibiotics | | | | | |
| Lijunsha | 427,838 | 26.9 | 429,560 | 37.7 | (0.4) |
| Paiqi | 90,426 | 5.7 | 89,909 | 7.9 | 0.6 |
| Others Antibiotics Finished Products | 151,306 | 9.5 | 141,671 | 12.4 | 6.8 |
| Sub-total | 669,570 | 42.1 | 661,140 | 58.0 | 1.3 |
| Intravenous Infusion Solution | 573,583 | 36.1 | 240,736 | 21.1 | 138.3 |
| Non-antibiotics Finished Products | 236,692 | 14.9 | 185,957 | 16.3 | 27.3 |
| Sales of bulk pharmaceuticals | 109,020 | 6.8 | 48,574 | 4.3 | 124.4 |
| Others | 2,163 | 0.1 | 3,024 | 0.3 | (28.5) |
| Total | <u>1,591,028</u> | <u>100</u> | <u>1,139,431</u> | <u>100.0</u> | <u>39.6</u> |

During the year, the macro economic environment of China was complex and changing quickly. In the first half of the year, the prices of energy fuel, raw materials and supplementary materials had been increasing sharply due to inflation. In the second half of the year, the economy was seriously stricken by the global financial crisis. To address the challenging macro economic situation and market change, the Group took advantage of the State's medical system reform, the growth in the size of the domestic pharmaceutical market and the recovery of the industry, and therefore achieved significant increase in the revenue for the year.

(1) Growth in sales of core products

Firstly, there was a stable sales of antibiotics products. By strengthening our business in the prevailing market and tapping into new market segments, the Company endeavoured to maintain its leading position in the macrolide antibiotics market. During the year, the sales of products of the Lijunsha series amounted to HK\$427,838,000, in which the sales of Lijunsha granules targeting at the pediatric market significantly increased by 63.7% as compared to last year. Paiqi and Limaixian, which are third generation macrolide antibiotics, accumulated a sales of over HK\$100,000,000.

Secondly, the business of intravenous infusion solutions attained a rapid growth. During the year, the revenue from the business of intravenous infusion solutions amounted to HK\$573,583,000, representing an increase of 32.0% as compared to last year. With our further optimized product portfolio, the Group has successfully expanded and extended its market share. While retaining its production and marketing prominence in basic and therapeutic intravenous infusion products, the Group has achieved an initial scale of a new product series including Amino Acid Infusions, Rinsing Physiological Saline Solutions and Pediatric Infusion Solutions and so on. Through professional academic marketing programmes, the Group kept expanding its soft-package infusion products market share amongst the country's large and medium-sized hospitals, and thus further consolidated its medium-to-high end market positioning. The sales volumes of PP Plastic Bottle and Non-PVC Soft Bag solutions increased by 37.5% and 78.4% respectively as compared to last year. The quality, production and sales of intravenous infusion solutions of the Group maintained at a leading position in the PRC.

Thirdly, as a result of the State's efforts to gradually establish new rural medical systems and the improvement of medical systems in urban communities, the sales of large-scale branded preparations and large-scale basic medicines saw relatively fast growth. The sales of Dobesilate and Lixiding increased by 27.4% and 38.1% respectively as compared to last year, while that of Limaixian represented an increase of 14.6% over last year. The sales of Cephalosporin Antibiotics increased by 35.8% on a year-on-year basis, and the sales of bulk pharmaceuticals increased by 124.4% as compared to that of last year. Both the sale of general medicines and collection of payments increased on a year-on-year basis.

Fourthly, the Group accelerated its launch of OTC and health care product lines. The Group completed the process of contacting distributors for the product of Lijungai, which enjoyed a sound market image as “a calcium product with dual technology of nano chelate – for its absorption-friendly nature”. The sales of OTC pharmaceutical products and healthcare products of the Group increased by 124.4% as compared to last year.

(2) Acceleration of the development and industrialized production of new products

During the year, the Group obtained one national new drug certificate, one national invention patent and eleven new production approvals. The production permit and the national new drug certificate in regard to Type 3.1 new influenza drug, Paracetamol, Loratadine and Pseudoephedrine Sulfate Sustained Release Tablet “Haogan”, were granted during the year. As the best anti-influenza drug in the US market, the market prospect of the product is perceived to be promising. This in turn paves the way for our expansion into the market of influenza preparations. A national invention patent in respect of the formulation of Erythromycin was attained as well, and nine new products were introduced to the market. Besides, three innovative medicines for general diseases were included in the new product development scheme of the Shaanxi province upon completion of part of their Pharmacodynamics and Pharmacokinetics research. These products are Type 1.1 new drug for curing Alzheimer’s disease, Type 1.5 new drug for gastric mucosal protection, Type 1.5 new anti-influenza drug. Moreover, a number of intravenous infusion solutions and oral preparations with promising market prospects were selected and launched onto the market. We are pleased to see both product innovation and industrialized production have made remarkable achievements. During the year, project funding from the Government amounted to over HK\$4 million.

We collaborated with the Xi’an Fourth Military Medical University to establish the “Shaanxi Provincial Innovative Pharmaceutical Engineering Centre”. We also established an open research and development centre for new medicines in Shijiazhuang. The establishment of these centres laid a sound foundation for our development of new products in the future.

3. DEVELOPMENT OUTLOOK

Looking forward to 2009, the ever-spreading of the global financial crisis has caused the macro-economic context to be more acute and the competition of the pharmaceutical market in mainland China to be intensified. Nevertheless, realizing the objective of national health insurance by the introduction of the State's new medical reform will expand the market in a sense of up to hundreds of billions of dollars and create significant development opportunities for the pharmaceutical industry. The Group will leverage on every chance to strengthen our development by focusing on the response to the new medical reform, keeping our eye on any ultimate possible market changes brought about by the implementation of the basic medicines system and the new medical reform, consolidating various characteristics of the Group's products as well as adjusting the strategies for both product development and marketing in time.

(1) To maintain the leading role of Macrolides antibiotics

In 2009, the Group will enhance its promotion and sales efforts on Lijunsha among sub-dealers and end users mainly at region or county level, while at the same time reinforcing the segment sales of Lijunsha products in form of tablets, capsules and granules. As regards Lijunsha tablets, new opportunities may arise this year after the price adjustment in the market last year. The fast growing momentum of Lijunsha granules will remain strong as well due to our new strategy of focusing on its specifically-designed-for-children version. Moreover, thanks to its capsule's advantage as an exclusive drug form in the State and its high bioavailability and absorbance, coupled with development of new selling points, we expect to see fast growth in the sales of Lijunsha capsules. During the year, we will enhance the sales and promotion of lyophilized powder for injection, capsules, dispersible tablets under the Paiqi series. New models of Azithromycin Suspension will also be introduced. It is hoped that the business scale of our Paiqi series will exceed HK\$100 million in the year. Besides, the Cephalosporin series is likely to maintain its fast growing momentum as shown in 2008 to further expand its scope and gradually develops into another hundred million dollars worth brand.

(2) Fast growth of intravenous infusion segment

The Group's new Plastic Bottle production line in Shijiazhuang passed the country's GMP authentication and managed to achieve its goals in the second half year. We will further expand its market shares in regard to therapeutic and plastic soft-packed infusions and oral preparations, while sustaining its fast growing momentum of intravenous infusions. Efforts will also be paid on developing and maintaining our market share in key hospitals and businesses and strengthening strategic partnerships. The Group will continue to strengthen its marketing efforts on new products such as Fluconazole Infusions (Tablets), Dextran Infusions, Amino Acid Infusions, Ozagrel and Sodium Chloride Injections and so on, so as to form a new driving force. On the other hand, international intravenous infusions market is yet to develop by way of more overseas registrations, and widened export channels to keep a healthy momentum of foreign trade.

(3) To boost the sales of general medicines and privileged brands

China will further expand the coverage of its basic medical protection after the issue of new medical reform policies to enhance basic medical protection standards across the country. Large-scale general medicine companies that enjoy the synergy of both scale and branding effect are expected to benefit the most from this trend. The Group have more than 400 production permits for various types of preparations. In 2009, the Group will speed up its selection of right products for the development of simpler, convenient, standardized and lower price brands to cater for the needs of urban communities and new rural markets. We will use every endeavor to introduce our products among end-users in the grassroots market with the aim to increase our market share. Moreover, market development and promotional efforts will also be further enhanced for fast growing products like microcirculation improvement agent "Dobesilate", cardiovascular and cerebrovascular medicine "Lixiding", antiviral drug "Arbidol" and anti-asthmatic drug "Ambroxol Hydrochloride Orally Disintegrating Tablets" to strive for another breakthrough during the year.

(4) To speed up the launches and enhance the sales of OTC and healthcare products

Benefiting from last year's promotion and brand-building efforts on Lijungai products, our focus for the year is on increasing market share, boosting sales, as well as raising the "distribution ratio" of drugstores, the "recommendation ratio" of salesmen and the "purchase ratio" of consumers, with the aim to boost the sales of products. By working with professional planning companies to formulate business strategies and explore new distribution channels for the Group while boosting and facilitating promotion, we are committed to boost the sales volume of Shengtai oral solutions and Zijin soft capsules. Moreover, with respect to Type 3.1 new influenza drug, Paracetamol, Loratadine and Pseudoephedrine Sulfate Sustained Release Tablet "Haogan", the production permit of which was granted last year, innovative strategy will be adopted for the business planning in order to promote it as a famous brand. These several products are expected to bring new growing points to the Group's sales.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

(All amounts in Hong Kong Dollars unless otherwise stated)

| | | 2008 | 2007 |
|---|-------------|-----------------------|-----------------------|
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Revenue | 3 | 1,591,028 | 1,139,431 |
| Cost of sales | 10 | <u>(863,496)</u> | <u>(560,936)</u> |
| Gross profit | | 727,532 | 578,495 |
| Selling and marketing costs | 10 | (389,091) | (290,754) |
| General and administrative expenses | 10 | (221,817) | (150,778) |
| Other gains – net | 3 | <u>15,780</u> | <u>24,354</u> |
| Operating profit | | 132,404 | 161,317 |
| Finance income | 4 | 2,100 | 3,871 |
| Finance costs | 4 | <u>(41,222)</u> | <u>(33,186)</u> |
| Finance costs – net | | <u>(39,122)</u> | <u>(29,315)</u> |
| Profit before income tax | | 93,282 | 132,002 |
| Income tax credit/(expense) | 5 | <u>8,914</u> | <u>(12,442)</u> |
| Profit for the year | | <u>102,196</u> | <u>119,560</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 102,106 | 119,530 |
| Minority interest | | <u>90</u> | <u>30</u> |
| | | <u>102,196</u> | <u>119,560</u> |
| Earnings per share for profit attributable to the equity holders of the Company (expressed in HK\$ per share) | | | |
| – Basic | 6 | <u>0.050</u> | <u>0.069</u> |
| – Diluted | 6 | <u>0.050</u> | <u>0.067</u> |
| Dividends | 7 | <u>32,432</u> | <u>32,236</u> |

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

(All amounts in Hong Kong Dollars unless otherwise stated)

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | | 214,036 | 68,032 |
| Property, plant and equipment | | 792,855 | 719,605 |
| Intangible assets | | 566,440 | 550,073 |
| Deferred income tax assets | | 15,626 | 13,553 |
| Available-for-sale financial assets | | 146 | 4,303 |
| | | <u>1,589,103</u> | <u>1,355,566</u> |
| Current assets | | | |
| Inventories | | 225,783 | 190,403 |
| Trade and bills receivables | 8 | 414,103 | 330,806 |
| Financial assets at fair value through profit or loss | | 2,608 | 493 |
| Prepayments, deposits and other receivables | | 44,165 | 53,616 |
| Pledged bank deposits | | 16,232 | 42,976 |
| Cash and cash equivalents | | 219,453 | 98,983 |
| | | <u>922,344</u> | <u>717,277</u> |
| Total assets | | <u><u>2,511,447</u></u> | <u><u>2,072,843</u></u> |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | | 46,959 | 44,080 |
| Reserves | | 1,321,885 | 1,151,216 |
| | | <u>1,368,844</u> | <u>1,195,296</u> |
| Minority interests | | <u>945</u> | <u>800</u> |
| Total equity | | <u><u>1,369,789</u></u> | <u><u>1,196,096</u></u> |

| | | 2008 | 2007 |
|--|-------------|-------------------------|-------------------------|
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | | 62,428 | 90,519 |
| Convertible bonds | | 132,720 | 151,135 |
| Deferred income tax liabilities | | 37,019 | 41,999 |
| Deferred revenue | | 4,649 | – |
| Long-term payables | | <u>15,661</u> | <u>17,649</u> |
| | | <u>252,477</u> | <u>301,302</u> |
| Current liabilities | | | |
| Trade and bills payable | 9 | 143,046 | 137,933 |
| Advanced receipts from customers | | 15,978 | 23,368 |
| Accruals and other payables | | 195,876 | 109,438 |
| Income tax payable | | 6,317 | 22,366 |
| Borrowings | | <u>527,964</u> | <u>282,340</u> |
| | | <u>889,181</u> | <u>575,445</u> |
| Total liabilities | | <u>1,141,658</u> | <u>876,747</u> |
| Total equity and liabilities | | <u><u>2,511,447</u></u> | <u><u>2,072,843</u></u> |
| Net current assets | | <u><u>33,163</u></u> | <u><u>141,832</u></u> |
| Total assets less current liabilities | | <u><u>1,622,266</u></u> | <u><u>1,497,398</u></u> |

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Hong Kong Dollars unless otherwise stated)

1. Basis of preparation

The consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. In 2008, Group has changed the presentation currency of the consolidated financial statements from Chinese Renminbi (“RMB”) to HK\$.

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.

(a) Amendment and interpretation effective in 2008 and relevant to the Group’s operations

- HKAS 39, ‘Financial instruments: Recognition and measurement’, amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, ‘Financial instruments: Disclosures’, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendments are effective prospectively for annual period starting from 1 July 2008. These amendments do not have any impact on the Group’s financial statements, as the Group has not reclassified any financial assets.
- HK(IFRIC) – Int 11, ‘HKFRS 2 – Group and treasury share transactions’, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent’s shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any impact on the Group’s financial statements as the Group has already adopted the principles that are consistent with HK(IFRIC) – Int 11.

(b) Interpretations to standards effective in 2008 but not relevant to the Group's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements'.
- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.

Detailed changes in accounting policies are disclosed in annual report 2008.

2. Segment information

(a) Primary reporting – Business segments

As at 31 December 2008, the Group operated in two business segments: (i) manufacturing and sale of intravenous infusion solution, and (ii) manufacturing and sale of antibiotics and others.

The segment results for the year ended 31 December 2008 are as follows:

| | Intravenous infusion solution HK\$'000 | Antibiotics and others HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|---|--|---------------------------------|---------------------------|
| Revenue | <u>573,583</u> | <u>1,017,445</u> | <u>–</u> | <u>1,591,028</u> |
| Operating profit/(loss) segment results | 113,020 | 50,745 | (31,361) | 132,404 |
| Finance income | | | | 2,100 |
| Finance costs | | | | <u>(41,222)</u> |
| Profit before income tax | | | | 93,282 |
| Income tax income | | | | <u>8,914</u> |
| Profit for the year | | | | <u>102,196</u> |

Other segment items included in the consolidated income statement for the year ended 31 December 2008 are as follows:

| | Intravenous infusion solution HK\$'000 | Antibiotics and others HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|---|--|---------------------------------|---------------------------|
| Amortisation of land use rights | 1,524 | 337 | – | 1,861 |
| Depreciation of property, plant and equipment | 35,881 | 31,743 | 626 | 68,250 |
| Amortisation of intangible assets | 15,988 | 1,093 | – | 17,081 |
| Impairment of inventories | – | 6,601 | – | 6,601 |
| Impairment of receivables | – | 13,699 | – | 13,699 |
| Research and development expenses | 2,282 | 7,127 | – | 9,409 |
| | <u>1,524</u> | <u>337</u> | <u>–</u> | <u>1,861</u> |

The segment results for the year ended 31 December 2007 are as follows:

| | Intravenous infusion solution HK\$'000 | Antibiotics and others HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|---------------------------------|---|--|---------------------------------|---------------------------|
| Revenue | <u>240,736</u> | <u>898,695</u> | <u>–</u> | <u>1,139,431</u> |
| Operating profit/(loss) | | | | |
| segment results | 58,663 | 118,347 | (15,693) | 161,317 |
| Finance income | | | | 3,871 |
| Finance costs | | | | <u>(33,186)</u> |
| Profit before income tax | | | | 132,002 |
| Income tax expense | | | | <u>(12,442)</u> |
| Profit for the year | | | | <u>119,560</u> |

Other segment items included in the consolidated income statement for the year ended 31 December 2007 are as follows:

| | Intravenous infusion solution <i>HK\$'000</i> | Antibiotics and others <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|--|--------------------------------|--------------------------|
| Amortisation of land use rights | 714 | 391 | – | 1,105 |
| Depreciation of property, plant and equipment | 15,127 | 31,740 | 598 | 47,465 |
| Amortisation of intangible assets | 1,267 | 1,038 | – | 2,305 |
| Reversal of impairment of inventories | – | (82) | – | (82) |
| Impairment of receivables | – | 1,641 | – | 1,641 |
| Research and development expenses | 722 | 4,867 | – | 5,589 |

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

| | Intravenous infusion solution <i>HK\$'000</i> | Antibiotics and others <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------|--|---|--|----------------------------------|
| Total assets | <u>1,367,351</u> | <u>1,090,135</u> | <u>53,961</u> | <u>2,511,447</u> |
| Total liabilities | <u>364,093</u> | <u>479,095</u> | <u>298,470</u> | <u>1,141,658</u> |
| Capital expenditure | <u>149,062</u> | <u>198,152</u> | <u>183</u> | <u>347,397</u> |

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

| | Intravenous infusion solution <i>HK\$'000</i> | Antibiotics and others <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------|--|--|--------------------------------|--------------------------|
| Total assets | <u>1,133,013</u> | <u>899,465</u> | <u>40,365</u> | <u>2,072,843</u> |
| Total liabilities | <u>277,010</u> | <u>307,497</u> | <u>292,240</u> | <u>876,747</u> |
| Capital expenditure | <u>919,619</u> | <u>40,982</u> | <u>1,231</u> | <u>961,832</u> |

Unallocated operating loss mainly contributed by share-based compensation in respect of share options granted to directors and employees and other corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade, bills 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.

Capital expenditure comprises additions to land use rights, property, plant and equipment, and intangible assets, include additions resulting from acquisitions through business combinations.

(b) Secondary reporting format – Geographical segments

The Group mainly operates in Mainland China. Substantially all of the Group's assets are located in Mainland China. Accordingly, no analysis by geographical segments is presented.

3. Revenue and other gains – Group

The Group is principally engaged in the manufacturing and sale of pharmaceutical products. Revenue recognised is as follows:

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Revenue: | | |
| – Sales of pharmaceutical products | 1,582,546 | 1,134,712 |
| – Sales of raw materials and by products | 4,645 | 847 |
| – Processing income | 1,773 | 2,332 |
| – Rental income | 2,064 | 1,540 |
| | <u>1,591,028</u> | <u>1,139,431</u> |
| 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 | 830 | 17,208 |
| – Change in fair value of financial assets at fair value through profit or loss | (2,116) | – |
| – Gain on redemption of convertible bonds | 5,745 | – |
| – Subsidy income | 2,442 | 525 |
| – Others | 30 | 6,621 |
| | <u>15,780</u> | <u>24,354</u> |
| | <u>1,606,808</u> | <u>1,163,785</u> |

4. Finance income and costs – Group

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Finance income – Interest income on bank deposits | <u>2,100</u> | <u>3,871</u> |
| Finance costs | | |
| – Interest expense of bank borrowings wholly repayable within five years | 27,344 | 18,895 |
| – Discount of bills receivables | 6,420 | 5,824 |
| – Convertible bonds | 13,442 | 8,526 |
| – Net exchange gain on bank borrowings | <u>(5,984)</u> | <u>(59)</u> |
| | <u>41,222</u> | <u>33,186</u> |

5. Income tax (credit)/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.

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 2008 (2007: 24%). 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.

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

| | 2008 | 2007 |
|--|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current income taxation – Mainland China Enterprise Income Tax | (854) | 16,432 |
| Deferred taxation | (8,060) | (3,990) |
| | <u>(8,914)</u> | <u>12,442</u> |

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

| | 2008 | 2007 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit before income tax | <u>93,282</u> | <u>132,002</u> |
| Tax calculated at the weighted average domestic tax rate applicable to the subsidiaries | 23,321 | 31,681 |
| Tax exemption and reduction | (18,589) | (20,171) |
| Write-back of unnecessary provision | (16,090) | – |
| Expenses not deductible | 2,444 | 1,292 |
| Others | – | (360) |
| Tax (credit)/expense | <u>(8,914)</u> | <u>12,442</u> |
| Effective tax rate | <u>N/A</u> | <u>9.4%</u> |

Provision of EIT of HK\$16,090,000 in respect of the period from 2000 to 2004 has been written back 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.

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit attributable to equity holders of the Company | <u>102,106</u> | <u>119,530</u> |
| Weighted average number of ordinary shares in issue after adjustment for the sub-division of shares (thousands) | <u>2,026,842</u> | <u>1,734,867</u> |
| Basic earnings per share (<i>HK\$ per share</i>) | <u>0.050</u> | <u>0.069</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. 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 above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2008 | 2007 |
|---|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Profit attributable to equity holders of the Company | 102,106 | 119,530 |
| Interest expense on convertible debt (net of tax) | — | 8,526 |
| | <u> </u> | <u> </u> |
| Profit used to determine diluted earnings per share | 102,106 | 128,056 |
| | <u> </u> | <u> </u> |
| Weighted average number of ordinary shares in issue (<i>thousands</i>) | 2,026,842 | 1,734,867 |
| Adjustment for conversion of convertible bonds (<i>thousands</i>) | — | 178,875 |
| Adjustment for share options (<i>thousands</i>) | — | — |
| | <u> </u> | <u> </u> |
| Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>) | 2,026,842 | 1,913,742 |
| | <u> </u> | <u> </u> |
| Diluted earnings per share (<i>HK\$ per share</i>) | 0.050 | 0.067 |
| | <u> </u> | <u> </u> |

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

7. Dividends

| | 2008 | 2007 |
|---|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Interim dividend of HK\$0.006 (2007: HK\$0.01 (after the sub-division)) per ordinary share | 12,162 | 20,074 |
| Proposed final dividend of HK\$0.01 (2007: HK\$0.006) per ordinary share | 20,270 | 12,162 |
| | <u> </u> | <u> </u> |
| | 32,432 | 32,236 |
| | <u> </u> | <u> </u> |

The directors recommend the payment of a final dividend of HK\$0.01 per ordinary share, totaling HK\$20,270,000 in respect of the year ended 31 December 2008. 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 2009.

8. Trade and bills receivables – Group

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| Trade and bills receivables | 436,868 | 341,553 |
| Less: provision for impairment | <u>(22,765)</u> | <u>(10,747)</u> |
| | <u>414,103</u> | <u>330,806</u> |

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

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Within 3 months | 317,027 | 265,274 |
| 4 to 6 months | 68,229 | 47,206 |
| 7 to 12 months | 33,018 | 22,885 |
| 1 to 2 years | 16,547 | 4,086 |
| 2 to 3 years | 1,351 | 630 |
| More than 3 years | <u>696</u> | <u>1,472</u> |
| | <u>436,868</u> | <u>341,553</u> |

9. Trade and bills payable – Group

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Trade payables | 134,996 | 124,050 |
| Bills payable | <u>8,050</u> | <u>13,883</u> |
| | <u>143,046</u> | <u>137,933</u> |

The ageing analysis of the trade and bills payables is as follows:

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Within 3 months | 108,658 | 98,344 |
| 4 to 6 months | 18,929 | 21,272 |
| 7 to 12 months | 6,648 | 5,068 |
| 1 to 3 years | 6,234 | 11,352 |
| More than 3 years | 2,577 | 1,897 |
| | <u>143,046</u> | <u>137,933</u> |

10. Expense by nature – Group

| | 2008 <i>HK\$'000</i> | 2007 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Raw materials and consumables used | 655,377 | 432,700 |
| Changes in inventories of finished goods and work in progress | (15,051) | (20,638) |
| Staff costs | | |
| – Wages and salaries | 161,764 | 106,402 |
| – Pension costs | 15,327 | 19,060 |
| – Welfare expenses | 30,927 | 24,676 |
| – Share-based compensation | 15,346 | – |
| Sales commission | 151,162 | 130,528 |
| Utility expenses | 82,005 | 62,820 |
| Advertising expenses | 70,589 | 58,245 |
| Travelling, meeting and entertainment expense | 40,855 | 31,012 |
| Operating leases rental expense | 12,429 | 10,508 |
| Research and development expenses | 9,409 | 5,589 |
| Depreciation of property, plant and equipment | 68,250 | 47,465 |
| Provision for/(Reversal of) impairment of inventories | 6,601 | (82) |
| Provision for impairment of receivables | 13,699 | 1,641 |
| Amortisation of intangible assets | 17,081 | 2,305 |
| Amortisation of land use rights | 1,861 | 1,105 |
| Auditors' remuneration | 3,387 | 3,262 |
| Loss on disposals of property, plant and equipment | 1,813 | 1,219 |
| Others | 131,573 | 84,651 |
| | <u>1,474,404</u> | <u>1,002,468</u> |
| Total cost of sales, selling and marketing costs and general and administrative expenses | <u>1,474,404</u> | <u>1,002,468</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 2008, the cash and cash equivalents aggregated to HK\$219,453,000 (2007: HK\$98,983,000), comprising HK\$40,510,000 (2007: HK\$13,698,000) of cash and cash equivalents denominated in Hong Kong dollars, HK\$176,030,000 (2007: HK\$83,989,000) in RMB and HK\$2,913,000 (2007: HK\$1,296,000) in other currencies.

As at 31 December 2008, the Group has restricted deposits amounting to HK\$16,232,000 (2007: HK\$42,976,000) as guarantee of the bank borrowings, payables for property, plant and equipment and bills payables.

The carrying amounts of the borrowings (including convertible bonds) amounted to HK\$723,112,000 (2007: HK\$523,994,000) as at 31 December 2008, comprising HK\$159,500,000 (2007: HK\$133,000,000) of borrowings denominated in Hong Kong dollars and HK\$563,612,000 (2007: HK\$390,994,000) 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) increased from 32.0% as at 31 December 2007 to 35.6% as at 31 December 2008.

Current ratio (defined as current assets divided by current liabilities) decreased from 1.25 as at 31 December 2007 to 1.04 as at 31 December 2008.

FOREIGN EXCHANGE RISK

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

PLEDGE OF ASSETS

As at 31 December 2008, the net book amount of the Group's land use right of HK\$55,881,000 (2007: HK\$57,927,000), the net book amount of the Group's buildings, plant and machineries of HK\$245,190,000 (2007: HK\$204,213,000) and restricted deposits of HK\$16,232,000 (2007: HK\$42,976,000) 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 2008, the Group did not have any significant contingent liabilities.

SHAANXI LIJUN MODERN CHINESE MEDICINE CO., LTD.

In June 2008, Xi'an Lijun had sold its entire interests of 80.675% in Shaanxi Lijun Modern Chinese Medicine Co., Ltd..

EXCHANGE RATE

As at 2008 and 2007, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

| | |
|------------------|---------|
| 1 January 2007 | 1.00467 |
| 31 December 2007 | 0.93638 |
| 31 December 2008 | 0.88189 |

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 7,351,016 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 2008.

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.

The fair value of the share options granted, determined using the Binomial valuation model, was appropriately HK\$15,346,000.

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

| Expiry date | Exercise price | Share options | |
|---------------|----------------|----------------|----------|
| | per share | 2008 | 2007 |
| | HK\$ | '000 | '000 |
| 6 August 2011 | <u>0.7</u> | <u>100,000</u> | <u>–</u> |

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 24 April 2009, and at all times during the year ended 31 December 2008.

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 2008.

DIVIDENDS

An interim dividend of HK\$0.006 per share was declared on 16 September 2008 and paid on 3 November 2008.

The Directors recommend the payment of a final dividend of HK\$0.01 per share which, together with the interim dividend of HK\$0.006 per share, will result in total dividends of HK\$0.016 (2007: HK\$0.016) per share for the year ended 31 December 2008. The final dividend is subject to approval by the shareholders at the annual general meeting to be held on 5 June 2009 and payable on 26 June 2009 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 2008 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 2008 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 2 June 2009 (Tuesday) to 5 June 2009 (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 Shops 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 1 June 2009 (Monday).

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting of the Company will be held at 11:00 a.m. on 5 June 2009 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 2008 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 employees for their dedicated support.

For and on behalf of the Board

Wu Qin

Chairman

Hong Kong, 24 April 2009

As at the date of this announcement, the Board comprises Mr. Wu Qin, Mr. Qu Jiguang, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xianjun, Mr. Duan Wei, Mr. Wang Zhizhong, Ms. Zhang Guifu and Mr. Bao Leyuan 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.