LEE'S PHARM.
李氏大藥廠

Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8221)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors") of LEE'S PHARMACEUTICAL HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

GEM STOCK CODE
8221

BOARD OF DIRECTORS
Executive Directors
Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee
(Managing Director)
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Director
Mr. Mauro Bove

Independent Non-executive Directors
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPLIANCE OFFICER
Ms. Lee Siu Fong

COMPANY SECRETARY & QUALIFIED ACCOUNTANT
Miss Luen Yee Ha, Susanne

PLACE OF BUSINESS IN HONG KONG
Unit 110-111, Bio-Informatics Centre,
No. 2 Science Park West Avenue,
Hong Kong Science Park, Shatin,
Hong Kong

REGISTERED OFFICE
P.O. Box 309 GT, Ugland House
South Church Street, George Town,
Grand Cayman, Cayman Islands

COMPANY WEBSITE
www.leespharm.com

AUDIT COMMITTEE
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

AUTHORIZED REPRESENTATIVE
Ms. Lee Siu Fong
Ms. Leelalertsuphakun Wanee

AUDITORS
HLM & Co., Certified Public Accountants

LEGAL ADVISERS
Arculli Fong & Ng (Hong Kong law)
An Hui Jing He Law Office (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor
Services Limited
Room 1712-1716,
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a research-driven and market-oriented biopharmaceutical group focused on the market of the People's Republic of China (the "PRC" or "China"). Through its wholly owned subsidiary in the PRC, Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. The Group has over 14 years' operation in China's pharmaceutical industry. It is fully integrated with solid infrastructures in drug development, clinical development, regulatory, manufacturing and sales and marketing in China with global perspective and it currently markets six products in China. The Group focuses on many different areas such as cardiovascular and infectious diseases, dermatology, oncology, gynecology and others with more than 20 products under different development stages stemming from both internal R&D as well as from the recent acquisition of licensing and distribution rights from various US and European companies. The mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

The Group carries out its sales and distribution activities in Hong Kong and China through branch offices in Guangzhou, Shanghai and Beijing with network covering most of the provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad. Zhaoke is the manufacturing plant of the Group located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilized powder for injection, small volume parenteral solutions and eye gel.

Currently, the Group has the following products in the market:

	Country of origin	Market PRC	Market Hong Kong	Medical application
Proprietary products:				
Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		Vira-infected disease
Slounase®	PRC	✓		Shortening bleeding time & reducing loss of blood
Eyprotor®	PRC	✓		Cornea ulcer
License-in products:				
Carnitene®	Italy	✓		Cardiac disease
Iron Proteinsuccinylate Oral Solution	Spain	✓		Sideropenic Anaemias
Aloxi®	France		✓	Prevention of nausea and vomiting associated with emetogenic cancer chemotherapy

FINANCIAL HIGHLIGHTS

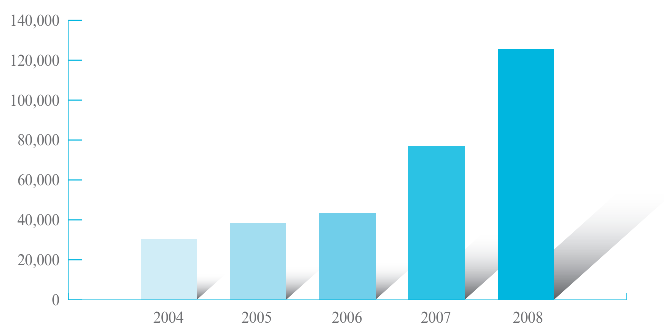
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**125,421**	76,712	43,531	38,528	30,395
Profit (loss) attributable to shareholders	**28,060**	11,370	(3,469)	153	(3,393)
	HK cents	HK cents	HK cents	HK cents	HK cents
Basic earnings(loss) per share	**6.77**	3.11	(1.00)	0.04	(1.09)
Interim dividend per share	**0.5**	–	–	–	–
Final dividend per share	**1.1**	0.8	–	–	–
	1.6	0.8	–	–	–
Dividend payout ratio	**23.6%**	25.7%			

TURNOVER ANALYSIS

	Three months ended 31 December		Twelve months ended 31 December	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Proprietary products	**19,400**	12,526	**71,194**	41,248
License-in products	**16,261**	12,700	**54,227**	35,464
	35,661	25,226	**125,421**	76,712

TURNOVER OF THE GROUP (HK$'000)



CHAIRMAN'S STATEMENT

It is with great pleasure that I present you the Group's results in 2008, a record-breaking year in the Group's history. Built on the strong performance of 2007, the Group continued the growth momentum, achieving an 63.5% increase in turnover and an 147% increase in profit respectively when compared with that of 2007. Turnover and profit reached a record high of HK$125 million and HK$28 million respectively.

The growth in sales was contributed across the board by all existing products in which *Slounase*® was leading the way with more than 156% increase in volume. The leap in profitability was made possible by significant improvement in efficiency and better cost control, reflected in the improvement of gross profit margin from 66.5% for the year 2007 to 70.7% for the year 2008.

In other areas such as manufacturing, research & development as well as business development, significant progress had also been achieved in 2008. The renovation of manufacturing facilities was successfully completed during the year, which results in more than double of production capacity. The increase in automation and improvement in overall production environment will not only enhance the Group's production capacity, but also strengthen the Group's quality assurance capability.

The approval and subsequent launch of the Group's fifth in-house developed product *Eyprotor*® in 2008 further affirms the Group's development capability. To expand the R&D base and ensure sustainable growth, we have established a new R&D centre in Hong Kong Science Park. This facility, together with the Group's existing mainland R&D centre in Hefei City, will lift the overall R&D capacity and capability of the Group to a new level and significantly enhance productivity.

In 2008, our pursuit of growth through partnership strategy has yielded further results, evidenced by the signing of cooperation agreements with three European and US companies. More discussion is underway which will broaden the revenue base of the Group.

Looking ahead, I am optimistic that we can maintain the growth momentum despite the financial turmoil we are all facing with in the world. With diligence and vigilance, we are confident that the Group's performance shall reach new level in 2009.

Last but not least, I want to express my heartfelt thanks to the board, management and every member of staff for their ongoing dedication and hard work, and our customers, banks, suppliers, shareholders and partners for their continuing support.

Lee Siu Fong
Chairman

Hong Kong, 20 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Year 2008 was a record year after the Group attained a breakthrough performance in the year 2007. The leap in profitability and turnover was accompanied with significant progress in every aspect of the business, from manufacturing to sales, and from product development to partner expansion.

Manufacturing facilities

The eye gel production facility was inspected and certified as GMP compliant by the China SFDA in August 2008 which increases the dosage forms manufactured in Hefei from three to four. In addition, the Group carried out a complete renovation of its production facility and quality control facility in 2008, which resulted in a three fold increase in production capacity. The improvement in automation and analytical hardware also provides greater assurance in product quality.

Drug development

The approval of *Eyprotor*® leads to the third launch of new product in as many years. *Eyprotor*® was the fruit of hardwork and perseverance of eight years by the Group's R&D team. It once again demonstrates the Group's capability to develop product from bench side to bedside.

The Group's second research and development centre has been established at the Hong Kong Science Park and its renovation work will be completed in around April 2009. The centre has a gross floor area of 1,724 square feet and pre-clinical studies such as chemistry and manufacturing development, specification development, formulation screening and stability study will be carried out at the site. The enhancement in R&D investment signifies the Group's commitment to sustainable growth through innovation.

Imported Products Registration

The Group has successfully renewed the Import Drug License of the Group's flagship product *Carnitene*® in September 2008, paving the way for continual growth of the product.

During 2008, the Group has submitted three applications for marketing approval. The three products are *Veloderm*®, *Challenger* balloon and Bemiparin respectively and the review is underway. These products target towards diverse diseases that affect a significant number of patients. Their expectd launch in 2009 will fuel the further growth of the Group.

Three clinical studies were initiated during 2008, making the number of ongoing studies to five. Both ALC and PLC studies enrolled 240 patients respectively and the expected completion dates are end of 2009 and middle of 2010 respectively. Both studies have progressed well and mid-term investigation review meetings were successfully concluded recently.

Also in 2008, the Group submitted application for clinical study of two imported products. Their respective reviews are ongoing and approval is envisaged in 2009.

International partnership

In pursuit of the Group's strategy of "growth through partnership", cooperation between the Group and its international partners has been expanded further. The Group strengthened its relationships with Italian pharmaceutical company Italfarmaco in 2008 by signing licensing and distribution agreement for the product *Gliatilin*®, which becomes the third product that the Group works together with Italfarmaco in China.

The Group also reached agreement with Helsinn for additional product *Gelclair*® in China which is complementary to the first product *Aloxi*®. This cooperation allows the Group to strengthen its position in cancer supporting care area.

During the year 2008, the Group made effort to further expand its gynecology product franchise by entering into a licensing and distribution agreement for *Lomexin*®, an anti-fungus drug indicated for vaginitis. Licensing and distribution agreement was also entered between the Group and US company Anesiva for its product *Zingo*® in China. *Zingo*®*'s* priority target is pediatric use which unmet need is high.

Sales and Marketing

The year 2008 witnessed the continuing growth of the Group's sales and marketing organization, highlighted by increase in sales for all the existing products. Among them, *Slounase*® registered the most impressive increase in sale volume by 156%. Other four existing products also performed well, achieving sales amount increment of 28%, 55%, 38% and 27 times for *Livaracine*®, *Yallaferon*®, *Carnitene*® and Iron Proteinsuccinylate Oral Solution respectively. The sales and marketing organization was also strengthened significantly in both human resource and operation structure. There was a net increase of 64% in sales and marketing personnel, making the Group more alert to local tenders and other matters which are vital to the penetration of products into the market place. The sales and marketing team was also trained to be more product oriented and focused, providing quicker and better response to market need.

Knowledge-base promotion had continued to be the main theme of the Group's brand building efforts in 2008. From Beijing to Hainan Island and from Xian to Fujian, the Group held a total of 457 seminars in 2008, bringing our message to more than 15,000 doctors. In addition, the Group had participated in three national pharmaceutical products trade fair and seven large scale national academic conferences such as National Cardiovascular Academic Conference, the Annual Meeting of Chinese Society of Clinical Oncology and the Hainan Province Anaesthetic Academic Conference.

In September 2008, the Group launched *Eyprotor*®, the third product in as many years. The product has since been gaining acceptance in the market place and should contribute to the growth of the Group in the future.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2008 was HK$125.4 million, representing an increase of HK$48.7 million or 63.5% from the same period in 2007. The growth was mainly contributed by *Slounase*® and *Carnitene*® with sales increased by 177% (HK$ 19 million) and 38% (HK$13 million) respectively for the year 2008. The sales of new product Iron Proteinsuccinylate Oral solution, which was launched in the fourth quarter of 2007, also increased by HK$4.6 million during the year. Sales of *Livaracine*® and *Yallaferon*® for the year 2008 also increased by 28% and 55% respectively. Profit attributable to shareholders reached HK$28 million for the year 2008, an increase of 147% over 2007.

Gross Profit Margin

Gross profit margin for the year 2008 was 70.7%, represented an improvement compared with gross profit margin of 66.5% for the year 2007. The improvement in gross profit margin was mainly driven by enhancing productivity and manufacturing efficiency for in-house developed products.

Administrative Expenses

Administrative expenses for the year 2008 increased by 41% compared with that of 2007. The increase in transaction volume caused the increase in staff cost and other operating expenses.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the year 2008 was 29.5 % which was same as that of last year.

Liquidity and Financial Resources

As at 31 December 2008, the Group had cash and bank balances and pledged bank deposits of approximately HK$24.2 million (31 December 2007: HK$18.63 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 2.73 times (31 December 2007: 2.00 times). As at 31 December 2008, the Group had bank and other borrowings of approximately HK$3.8 million and shareholders' funds of approximately HK$85.3 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was nil as at 31 December 2008 and 31 December 2007.

Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in future.

Treasury Policies

The group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group may use forward contracts to hedge against foreign currency fluctuations.

Charges on Group Assets

As at 31 December 2008, the Group has pledged leasehold land and building with an aggregate amount of HK$9,889,884 (2007: Nil), and machinery of HK$292,888 (2007: HK$335,000) to secure general banking facilities granted to the Group.

In addition, time deposits of HK$2.01 million were pledged as securities for banking facilities as at 31 December 2008 (31 December 2007: HK$2.01 million).

Contingent Liabilities

As at 31 December 2008, the Group had no contingent liabilities.

Employee Information

As at 31 December 2008, the Group had 249 employees (2007: 196 employees) working in Hong Kong and in the PRC. Total employee remuneration, including that of the Directors and mandatory provident fund contributions, for the year under review amounted to approximately HK$22.3 million (2007: HK$13.77 million).

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

PROSPECTS

Despite the tough economic environment caused by the meltdown of worldwide financial system, the directors are confident about the growth momentum of the Group. With more than 20 products under different development stages, the Group possesses a diverse and rich product pipeline that will meet the patient's need and deliver sustained growth to the Group in 2009 and beyond.

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 52

Ms. Lee Siu Fong ("Ms. Lee") joined the Group in April 1997 and has since been responsible for the Group's financial affairs. Ms. Lee is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. Ms. Lee is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director & Chief Marketing Officer, 55

Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") joined the Group in April 1997. In September 2003, Ms. Leelalertsuphakun was appointed the Chief Marketing Officer and is responsible for the Group's sales and marketing activities. Ms. Leelalertsuphakun is the sister of Ms. Lee and Dr. Li Xiaoyi.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, 46, PhD

Dr. Li Xiao Yi ("Dr. Li") holds a Ph.D. of Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Warner-Lambert, a major pharmaceutical company. He is the founder of the Group and has been responsible for the daily operation and research and development of the Group since 1994. Dr. Li is the brother of Ms. Lee and Ms. Leelalertsuphakun.

NON-EXECUTIVE DIRECTOR

Mauro Bove, *54*

Mr. Mauro Bove ("Mr. Bove") joined the Group on 9 May 2005. Mr. Bove obtained his law degree at the University of Parma, Italy, in 1980. He has more than twenty six years of business and management experience within the pharmaceutical industry. He has served in a number of senior positions in business, licensing, M&A and corporate development within Sigma-Tau, one of the leading Italian pharmaceutical groups. He presently heads the corporate and business development department and sits on the board of directors of Sigma-Tau Finanziaria S.p.A., the holding company of Sigma-Tau group. Mr. Bove is connected with Defiante Farmaceutica Lda ("Defiante"), a substantial shareholder of the Company as Defiante is a company belonging to Sigma-Tau group. Save as disclosed above, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the GEM Listing Rules).

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director & chairman of audit committee, 46, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob ("Dr. Chan") joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. Dr. Chan had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently Dr. Chan is Investment Director of a Hong Kong listed company. Dr. Chan does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Independent non-executive Director & member of audit committee, 47, CPA(Practising), FCCA, BBA

Mr. Lam Yat Cheong ("Mr. Lam") joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 21 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lam is also an independent non-executive director of Perfectech International Holdings Limited and Wuyi International Pharmaceutical Company Limited, both of the companies are listed in Hong Kong. Mr. Lam does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Independent non-executive Director & member of audit committee, 50, PhD, MPhil, BSc.

Dr. Tsim Wah Keung, Karl ("Dr. Tsim"), joined the independent Board on 20 September 2004. Dr. Tsim currently serves as Professor of Department of Biology at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. Dr. Tsim has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committee in advising the development of traditional Chinese medicine as health food products. Dr. Tsim does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

SENIOR MANAGEMENT

Wang Xian Shun

Chief engineer, 72, BSc

Professor Wang Xian Shun, is the Chief Engineer of Zhaoke. Professor Wang graduated from Beijing University with a bachelor degree in Biochemistry. Before joining the Group, he was a professor and a faculty member in College of Life Science, University of Science and Technology of China. He joined the Group in 1995 and has been responsible for the technical operation of Zhaoke.

Chen Yueshen

Chief operating officer, 50

Mr. Chen Yueshen, is the Chief Operating Officer, Executive Deputy Manager and a Director of Zhaoke. He is responsible for the daily operation of Zhaoke as well as administration and deployment of human resources.

Luen Yee Ha, Susanne

Chief financial officer, company secretary & qualified accountant, FCCA, FCPA, MAIA

Miss Luen Yee Ha, Susanne joined the Group in June 2005 and is responsible for financial management, reporting and company secretarial matters. She has extensive experience in auditing, accounting and financial fields and has over sixteen years' working experience in listed companies. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and holds a Master degree in International Accounting from City University of Hong Kong.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 32.

An interim dividend of HK$0.005 (2007: Nil) per share, amounting to HK$2,074,375 was paid to shareholders on 18 September 2008.

The Board of Directors recommended a final dividend of HK$0.011 (2007: HK$0.008) per share to shareholders registered in the Company's Register of Members as at the close of business on 5 May 2009. Upon approval by shareholders, the final dividend will be paid on or about 14 May 2009.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 82.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in notes 24 and 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 25 to the financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statements of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$44.92 million. This includes the Company's share premium in the amount of HK$44.5 million at 31 December 2008, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 18.03% in aggregate for the Group's total turnover for the year (2007: 13.4%).

Purchase from the Group's five largest suppliers accounted for approximately 82.1% in aggregate for the Group's total purchases for the year (2007: 91.8%). The largest supplier of the Group accounted for approximately 48.8% of the Group's total purchases (2007: 72.5%).

Apart from as disclosed under the paragraph headed "Continuing Connected Transactions" below, none of the Directors, their associates (as defined in the GEM Listing Rules) or any Shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:
Lee Siu Fong
Leelalertsuphakun Wanee
Li Xiaoyi

Non-executive director:
Mauro Bove

Independent non-executive directors:
Chan Yau Ching, Bob
Lam Yat Cheong
Tsim Wah Keung, Karl

In accordance with Article 95 and 112 of the Company's Articles of Association, Dr. Li Xiaoyi, Dr. Chan Yau Ching, Bob and Dr. Tsim Wah Keung, Karl will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Company or any of its subsidiaries to which any of the Directors was a party and in which any of the Directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year under review.

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing.

Dr. Li Xiaoyi has a service contract with the Company since his appointment as Director of the Company on 1 September 2003 and the contract has been renewed for three years from 1 September 2007. Both parties shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Dr. Chan Yau Ching, Bob has been independent non-executive director of the Company since 14 January 2002. The service contract with Dr. Chan has been renewed for three years on 12 October 2007.

Mr. Mauro Bove (Mr. Bove) has been non-executive director of the Company since 9 May 2005. Service contract with Mr. Bove has been renewed for three years on 3 January 2009.

Mr. Lam Yat Cheong has been independent non-executive director of the Company since 1 July 2004. The service contract with Mr. Lam has been renewed for three years on 1 July 2007.

Dr. Tsim Wah Keung, Karl has been independent non-executive director of the Company since 20 September 2004. The service contract with Dr. Tsim has been renewed for three years on 20 September 2007.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company, among others, conditionally adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the Prospectus.

Movements of the share option during the year ended 31 December 2008 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2008**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 31.12.2008**
Directors						
Lee Siu Fong	26.06.2002	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	–	–	–	289,000
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
Lam Yat Cheong	11.07.2005	300,000	–	–	–	300,000
Tsim Wah Keung, Karl	11.07.2005	300,000	–	(300,000)	–	–
Sub-total of Directors		6,379,000	–	(300,000)	–	6,079,000
Employees	26.06.2002	50,000	–	(50,000)	–	–
	13.01.2003	400,000	–	(100,000)	–	300,000
	25.06.2004	5,650,000	–	(850,000)	–	4,800,000
	11.07.2005	3,400,000	–	(850,000)	–	2,550,000
	02.01.2008	–	1,355,000	–	(70,000)	1,285,000
Consultant	02.06.2006	500,000	–	–	–	500,000
	02.01.2008	–	2,000,000	–	–	2,000,000
	26.11.2008	–	500,000	–	–	500,000
Sub-total of employees and consultant		10,000,000	3,855,000	(1,850,000)	(70,000)	11,935,000
Grand total		16,379,000	3,855,000	(2,150,000)	(70,000)	18,014,000

Notes:

1. Particulars of share options:

Date of Grant	Exercise period		Exercise price per share *HK$*
26.06.2002	(i)	50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012	0.280
	(ii)	unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	
13.01.2003	13.07.2003-12.01.2013		0.405
25.06.2004	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014	0.218
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	
11.07.2005	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015	0.159
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	
02.06.2006	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006- 01.06.2016	0.175
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	
02.01.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008- 01.01.2018	0.492
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	
26.11.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009- 25.11.2018	0.383
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2008, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO') were as follows:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		2,004,375		
	Interest of corporation	(i)	128,290,625	130,295,000	31.38
Leelalertsuphakun Wanee	Beneficial owner		2,740,000		
	Interest of corporation	(i)	128,290,625	131,030,625	31.55
Li Xiaoyi	Beneficial owner		35,110,000		
	Interest of spouse	(ii)	16,000,000	51,110,000	12.31
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.29
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.07

Notes:

(i) 128,290,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
		6,079,000	6,079,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	130,295,000	1,600,000	131,895,000
Leelalertsuphakun Wanee	131,030,625	289,000	131,319,625
Li Xiaoyi	51,110,000	2,890,000	54,000,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung, Karl	300,000	–	300,000
Mauro Bove	–	1,000,000	1,000,000
Lam Yat Cheong	–	300,000	300,000

2. *Short positions*

No short positions of Directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the year ended 31 December 2008 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, the following persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		120,290,625	28.97
Defiante Farmaceutica, Lda	Beneficial owner		123,850,000	29.82
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.85
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.85
	Interest of spouse	(ii)	35,110,000	8.45

(b) Underlying shares

Name	Capacity and nature	*Notes*	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	2,890,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	120,290,625	–	120,290,625
Defiante Farmaceutica, Lda	123,850,000	–	123,850,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,110,000	2,890,000	54,000,000

Notes:

(i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.

(ii) The Shares and share option are owned by Ms. Lue Shuk Ping,Vicky's spouse, Dr. Li Xiaoyi.

2. *Short positions*

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 31 December 2008, so far as is known to the Directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

Defiante Farmaceutica, Lda is a substantial shareholder of the Company and also a member of Sigma-Tau Group. The supply of pharmaceutical products by Sigma-Tau Group to the Company constituted continuing connected transactions under the Gem Listing Rules.

The continuing connected transactions were approved by independent shareholders where the Cap of sales of *Carnitene®* to the Company by the Sigma-Tau Group for the year ended 31 December 2008 would not exceed HK$28,475,895.

For the year ended 31 December 2008, sales of *Carnitene®* to the Company by the Sigma-Tau Group amounted to HK$13,421,215.

The continuing connected transactions have been reviewed by the independent non-executive directors and they have confirmed that the transactions:

a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.

b. are conducted on normal commercial terms.

c. are entered into in accordance with the terms of Distribution Agreement that are fair and reasonable and in the interests of Shareholders as a whole.

Save as disclosed above, there were no other transactions requiring disclosure of connected transactions in accordance with the requirements of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the year ended 31 December 2008.

CHARITABLE DONATION

During the year, the Group made charitable donations amounting to HK$249,788.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008 (2007: Nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors, a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules during the year. Based on such confirmation, the Company considers Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl to be independent.

STAFF RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2008.

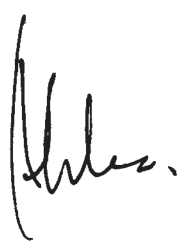
AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

The consolidated financial statements have been audited by HLM & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Lee Siu Fong
Chairman

Hong Kong, 20 March 2009

CORPORATE GOVERNANCE PRACTICES

The Group has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2008, with deviations from provision B.1 of the Code.

Under provision B.1 of the Code, a remuneration committee should be established to make recommendations to the Board on the policy and structure for all remuneration of directors and senior management. The Board considers that the Company needs not set up a remuneration committee as remuneration of directors and senior management are determined by the Board in accordance with the Articles of Association of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2008, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealing throughout the year ended 31 December 2008.

BOARD OF DIRECTORS

The Board is responsible for decision in relation to the overall strategic development of the Group's business. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the executive directors and management.

During the financial year ended 31 December 2008, 6 full board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong *(Chairman)*	6/6	100%
Leelalertsuphakun Wanee	6/6	100%
Li Xiaoyi	6/6	100%
Non-executive Director		
Mauro Bove	0/6	0%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	6/6	100%
Lam Yat Cheong	5/6	83%
Tsim Wah Keung, Karl	2/6	33%

The Chairman and Chief Executive Officer of the Company are Ms. Lee Siu Fong and Dr. Li Xiaoyi respectively. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

NON-EXECUTIVE DIRECTORS

All non-executive directors are appointed for a specific term, subject to retirement by rotation at least once every three years.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence and experience that they can contribute to the Company.

REMUNERATION OF DIRECTORS

In accordance with the Articles of Association of the Company, the remuneration of directors and managers are determined by the board of directors after giving due consideration to the compensation levels for comparable positions in the market. Accordingly, the Board considers that the Company needs not set up a remuneration committee to determine the remuneration of Directors and senior management.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis.

The company set up an audit committee on 26 June 2002 with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (Chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

In the financial year ended 31 December 2008, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditors and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendants	Number of audit committee meetings attended/Total	Attendance percentage
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	3/4	75%

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group's asset and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The systems include a well-established organizational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31 December 2008, the Board has, through the Audit Committee with the assistance of the management, conducted a review of the Group's internal control system, including without limitation to financial control, operational control, compliance control and risk management functions. The Board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and auditors.

The Board is of the view that the internal control systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, all the remuneration paid to the Company's auditors HLM & Co. of amount HK$550,000 was audit services fee.

INDEPENDENT AUDITORS' REPORT

恒健會計師行
HLM & Co.
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: hlm@hlm.com.hk

TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 81 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

HLM & Co.
Certified Public Accountants

Hong Kong, 20 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	6	125,421	76,712
Cost of sales		(36,779)	(25,719)
Gross profit		88,642	50,993
Other revenue	8	1,482	973
Selling and distribution expenses		(36,983)	(22,597)
Research and development expenses		(2,101)	(1,499)
Administrative expenses		(19,954)	(14,192)
Profit from operations	9	31,086	13,678
Finance costs	10	(505)	(890)
Profit before taxation		30,581	12,788
Taxation	13	(2,521)	(1,418)
Net profit attributable to shareholders		28,060	11,370
Dividends	14	6,642	3,305
		HK cents	HK cents
Earnings per Share			
Basic	15	6.77	3.11
Diluted	15	6.66	3.06

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current Assets			
Property, plant and equipment	16	19,582	15,253
Intangible assets	17	26,506	17,800
Lease premium for land	18	1,248	1,212
Goodwill		3,900	3,900
		51,236	38,165
Current Assets			
Lease premium for land		33	31
Inventories	20	6,867	8,521
Trade receivables	21	17,914	9,043
Other receivables, deposits and prepayments		7,666	12,212
Pledged bank deposits		2,012	2,012
Time deposits		4,662	10,360
Cash and bank balances		17,520	6,254
		56,674	48,433
Current Liabilities			
Trade payables	22	1,598	5,809
Other payables		14,657	13,084
Short term borrowings	23	3,837	4,228
Tax payable		676	1,131
		20,768	24,252
Net Current Assets		35,906	24,181
Total Assets less Current Liabilities		87,142	62,346
Capital and Reserves			
Share capital	24	20,764	20,656
Reserves		64,571	40,169
Equity attributable to shareholders of the Company		85,335	60,825
Non-current Liabilities			
Deferred tax liabilities		1,807	1,071
Long-term borrowings	23	–	450
		1,807	1,521
		87,142	62,346

The financial statements on pages 32 to 81 were approved and authorised for issue by the Board of Directors on 20 March 2009 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

BALANCE SHEET

AT 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current Assets			
Intangible assets	17	3,840	3,840
Interests in subsidiaries	19	61,715	54,355
		65,555	58,195
Current Assets			
Other receivables, deposits and prepayments		9	245
Time deposits		–	8,019
Cash and bank balances		319	649
		328	8,913
Current Liabilities			
Other payables		201	249
Net Current Assets		127	8,664
Total Assets less Current Liabilities		65,682	66,859
Capital and Reserves			
Share capital	24	20,764	20,656
Reserves	25	44,918	46,203
		65,682	66,859

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Revaluation reserve HK$'000	Share-based compensation reserve HK$'000	Exchange reserves HK$'000	Retained profits (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2008	20,656	44,154	9,200	3,463	851	1,679	(19,178)	60,825
Employee share option benefits	–	–	–	–	316	–	–	316
Exercise of share options	108	379	–	–	(79)	–	–	408
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	194	–	925	–	1,119
2007 final dividend paid	–	–	–	–	–	–	(3,319)	(3,319)
2008 interim dividend paid	–	–	–	–	–	–	(2,074)	(2,074)
Net profit for the year	–	–	–	–	–	–	28,060	28,060
At 31 December 2008	20,764	44,533	9,200	3,657	1,088	2,604	3,489	85,335
At 1 January 2007	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
Employee share option benefits	–	–	–	–	226	–	–	226
Exercise of share options	53	203	–	–	(41)	–	–	215
Issue of new shares upon exercise of warrants	3,292	11,455	–	–	–	–	–	14,747
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	226	–	852	–	1,078
Net profit for the year	–	–	–	–	–	–	11,370	11,370
At 31 December 2007	20,656	44,154	9,200	3,463	851	1,679	(19,178)	60,825

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
Profit before taxation	30,581	12,788
Adjustments for:		
Depreciation of property, plant and equipment	2,730	2,202
Interest expenses	427	755
Interest income	(236)	(227)
Amortisation of intangible assets	620	524
Amortisation of leasehold premium for land	32	31
Bad debt written off	20	16
Exchange difference	(562)	(366)
Share based payments	316	226
Provision for slowing moving stocks	–	60
Stock written off	183	274
Allowance for bad and doubtful debts	181	46
Loss on disposal of property, plant & equipment	281	16
Operating cash flow before movements in working capital	34,573	16,345
Decrease (increase) in inventories	1,678	(4,635)
Increase in trade receivables	(8,867)	(4,844)
Decrease (increase) in other receivables, deposits and prepayment	4,673	(8,301)
(Decrease) increases in trade payables	(4,255)	5,122
Increase in other payables	1,183	6,471
Cash from operations	28,985	10,158
Interest paid	(427)	(755)
Income tax paid	(2,363)	–
Net cash from operating activities	26,195	9,403

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 HK$'000	2007 HK$'000
Investing activities		
Interest received	236	227
Purchase of plant and equipment	(6,524)	(2,015)
Additions of deferred development cost	(8,659)	(3,496)
Net cash used in investing activities	(14,947)	(5,284)
Financing activities		
New loan raised	15,177	15,066
Repayment of loans	(16,108)	(21,632)
Net proceeds from issue of new shares upon exercise of warrants and share options	408	14,962
Dividend paid	(5,393)	–
Net cash (used in) from financing activities	(5,916)	8,396
Net increase in cash and cash equivalents	5,332	12,515
Cash and cash equivalents at 1 January	18,626	6,008
Effect of foreign exchange rate changes	236	103
Cash and cash equivalents at 31 December	24,194	18,626
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	17,520	6,254
Time deposit	4,662	10,360
Pledged bank deposits	2,012	2,012
	24,194	18,626

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principal activities of the Group are the development, manufacturing and sales of pharmaceutical products.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 39 (Amendments)	Eligible Hedged Items[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HK(IFRIC)-Int 13	Customer loyalty programmes[3]
HK(IFRIC)- Int 15	Agreements for the Construction of Real Estate[1]
HK (IFRIC)- Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)- Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)- Int 18	Transfers of Assets from Customers[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC)-Int 9, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008

* Improvements to HKFRSs contain amendments to HKFRS 1, HKFRS 4, HKFRS 5, HKFRS 6, HKFRS 7, HKFRS 8, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 12, HKAS 14, HKAS 16, HKAS18, HKAS 19, HKAS 20, HKAS 21, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 33, HKAS 34, HKAS 36, HKAS 37, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, HK(IFRIC)-Int 2.

The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold buildings.

The consolidated financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at fair value of the consideration received and receivable and represent amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment, other than land and buildings, held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Leasehold buildings held for use in the production or supply of goods are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	5%
Leasehold improvement	20%
Plant and machinery	5% – 14%
Office and laboratory equipment	20% – 33%
Motor vehicle	10%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease premium for land

Lease premium for land are up-front payments to acquire long-term interests in lessee-occupied properties. The premium is stated at cost and is amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life when the asset is available for use.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Government grants

Government grants are recognised as income over the period necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Retirement benefit costs

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK$1,000 per month for each employee.

The pension schemes covering all the Group's PRC employees are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes, the Mandatory Provident Fund Scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses on tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation increase under that standard.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that is probable taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. To the extent that fixed-rate bank borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflected the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designed as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or

- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at fair value through profit or loss (continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming proble that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue, or cancellation of the Company's own equity instruments.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Contingent liabilities

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation (if appropriate).

Contingent assets

Contingent assets are not recognised. If, in subsequent periods, it has become virtually certain that an inflow of economic benefits will arise, the asset and income are recognised in the period in which the change occurs.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgment that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2008 was HK$19,582,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 33% per annum or over the term of the lease, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment on trade receivables

The policy for impairment on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group had deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an aging analysis at each balance sheet date, and identified obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The management of the Group carries out an inventory review on a product-by-product basis at each balance sheet date and provide impairment on obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management of the Group to project the future cash flows, based on certain assumptions with reference to the past performance and current market condition from the cash-generating unit and a suitable discount rate in order to calculate the present value. After assessment, the carrying amount of goodwill is HK$3,900,000 as at 31 December 2008. There is no impairment on goodwill during the year.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables, bank balances, and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

A major subsidiary of the Company has foreign currency sales, which expose the Group to foreign currency risk. The Group currently may use forward contracts to hedge foreign currency risk. The management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities	**Assets**
	2008	2008
	HK$'000	HK$'000
Renminbi ("Rmb")	13,916	17,849

The following table shows the sensitivity analysis of a 5% increase/(decrease) in Rmb against the Hong Kong dollars, the effect in the profit for the year is as follows:

	Impact of Rmb
	2008
	HK$'000
Increase/(decrease) in profit for the year	197

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

The Group is exposed to both cash flow interest rate risk and fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings. The Group currently does not have any interest rate hedging policy. However, the current debt level of the Group is relatively low and the exposure to the interest rate risk is limited for the Group. The management of the Group monitors the interest rate exposure regularly.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating interest rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The management of the Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

6. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

7. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating divisions – proprietary products and licensed products. These divisions are on the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Proprietary products	–	manufacture and sale of self-developed pharmaceutical products
Licensed products	–	trading of license-in pharmaceutical products

Segment information about these businesses is presented below:

	Proprietary products		Licensed products		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment turnover	71,194	41,248	54,227	35,464	125,421	76,712
Segment results	20,579	11,239	12,800	4,289	33,379	15,528
Interest income					236	227
Unallocated expenses					(2,529)	(2,077)
Profit from operations					31,086	13,678
Finance costs					(505)	(890)
Profit before taxation					30,581	12,788
Taxation					(2,521)	(1,418)
Profit attributable to shareholders					28,060	11,370
Segment assets	55,214	51,294	28,501	22,932	83,715	74,226
Unallocated assets					24,195	12,372
Total assets					107,910	86,598
Segment liabilities	11,660	11,550	4,596	14,223	16,256	25,773
Unallocated liabilities					6,319	–
Total liabilities					22,575	25,773

7. SEGMENT INFORMATION *(continued)*

Geographical segments

During the years ended 31 December 2008 and 2007, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong		Total	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Segment assets	62,623	41,486	45,287	45,112	107,910	86,598
Segment liabilities	17,532	11,550	5,043	14,223	22,575	25,773

8. OTHER REVENUE

	The Group	
	2008 HK$'000	2007 HK$'000
Interest income on bank deposits	236	227
Development grants	66	212
Other income	1,180	534
	1,482	973

9. PROFIT FROM OPERATIONS

	The Group	
	2008 HK$'000	2007 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	2,730	2,202
Amortisation of intangible assets	620	524
Total depreciation and amortisation	3,350	2,726
Auditors' remuneration	550	476
Staff costs	21,950	13,768
Share based payment	316	226
Research and development costs	2,101	1,499
Operating lease payments in respect of rented premises	2,142	1,591
Bad debts written off	20	16
Allowance for bad and doubtful debts	181	46
Loss on disposal of plant and equipment	281	16

10. FINANCE COSTS

	The Group	
	2008 HK$'000	2007 HK$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five years	428	755
Bank charges	77	135
	505	890

11. DIRECTORS' REMUNERATIONS

All Directors received emoluments during the year. The aggregate emoluments paid and payable to the Directors were as follows:

The emoluments paid or payable to each of the 7 (2007: 7) directors were as follows:

The Group

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Employer's contributions to pension schemes HK$'000	2008 Total emoluments HK$'000	2007 Total emoluments HK$'000
Executive Directors					
Lee Siu Fong	–	1,050	12	1,062	882
Leelalertsuphakun Wanee	–	1,218	12	1,230	936
Li Xiaoyi	–	1,789	12	1,801	1,428
Non-executive Director					
Mauro Bove	50	–	–	50	50
Independent non-executive Directors					
Chan Yau Ching	50	–	–	50	50
Lam Yat Cheong	50	–	–	50	50
Tsim Wah Keung	50	–	–	50	50
Total	200	4,057	36	4,293	3,446

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2007: two) individuals were as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	820	779
Contributions to retirement benefits schemes	19	24
	839	803

The emoluments of each of the above non-director highest paid individuals did not exceed HK$1,000,000 during the year.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	The Group	
	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong	–	–
The PRC	1,845	988
Deferred tax		
Provision of current year	676	430
Taxation attributable to the Group	2,521	1,418

Hong Kong Profits Tax has not been provided as the Group had no assessable profit in Hong Kong for the year.

Taxes arising in other jurisdictions of the PRC are calculated at the rates of tax prevailing in the PRC.

13. TAXATION *(continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
Profit before taxation	30,581	12,788
Notional tax at the rates applicable to results in regions concern	4,756	2,044
Tax effect of non-deductible expenses	214	203
Tax effect of non-taxable revenues	(26)	(363)
Tax effect on temporary differences not recognised	11	(36)
Tax effect of tax losses not recognised	1	572
Tax effect of PRC preferential tax allowance	(539)	(302)
Utilisation of tax losses previously not recognised	(1,896)	(700)
Tax charge for the year	2,521	1,418

At the balance sheet date, the Group has unused estimated tax losses of HK$6.2 million (2007: HK$17.3 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

14. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim dividend paid – HK$0.005 (2007: Nil) per share	2,074	–
Final dividend proposed – HK$0.011 (2007: HK$0.008) per share	4,568	3,305*
	6,642	3,305

The final dividend of HK$0.011 (2007: HK$0.008) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. This proposed dividend is not included as a dividend payable in the consolidated balance sheet as at 31 December 2008.

* The actual final dividend paid for 2007 was HK$3,319,000 due to additional shares issued on 30 April 2008.

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	The Group	
	2008	2007
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK$28,060,000	HK$11,370,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	414,718,852	365,519,795
Effect of dilutive potential ordinary shares: Options	6,347,500	6,139,691
Weighted average number of ordinary shares for the purposes of diluted earnings per share	421,066,352	371,659,486

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
The Group						
COST OR VALUATION						
At 1 January 2008	15,056	435	9,644	2,998	279	28,412
Exchange rate adjustments	844	–	541	132	15	1,532
Transfer	(7)	–	62	(55)	–	–
Additions	–	–	3,415	2,470	639	6,524
Disposals	–	–	(1,719)	(626)	–	(2,345)
At 31 December 2008	15,893	435	11,943	4,919	933	34,123
Comprising:						
At cost	–	435	11,943	4,919	933	18,230
At valuation	15,893	–	–	–	–	15,893
	15,893	435	11,943	4,919	933	34,123
DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	4,516	109	6,337	2,150	47	13,159
Exchange rate adjustments	278	–	331	105	2	716
Transfer	26	–	28	(54)	–	–
Charge for the year	972	87	1,237	376	58	2,730
Written off upon disposal	–	–	(1,460)	(604)	–	(2,064)
At 31 December 2008	5,792	196	6,473	1,973	107	14,541
NET BOOK VALUES						
At 31 December 2008	10,101	239	5,470	2,946	826	19,582

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
The Group						
COST OR VALUATION						
At 1 January 2007	13,521	510	8,229	2,334	261	24,855
Exchange rate adjustments	930	–	594	134	18	1,676
Transfer	(251)	–	251	–	–	–
Additions	856	–	574	585	–	2,015
Disposals	–	(75)	(4)	(55)	–	(134)
At 31 December 2007	15,056	435	9,644	2,998	279	28,412
Comprising:						
At cost	–	435	9,644	2,998	279	13,356
At valuation	15,056	–	–	–	–	15,056
	15,056	435	9,644	2,998	279	28,412
DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	3,417	72	4,977	1,888	17	10,371
Exchange rate adjustments	214	–	373	117	–	704
Transfer	(23)	–	23	–	–	–
Charge for the year	908	96	968	200	30	2,202
Written off upon disposal	–	(59)	(4)	(55)	–	(118)
At 31 December 2007	4,516	109	6,337	2,150	47	13,159
NET BOOK VALUES						
At 31 December 2007	10,540	326	3,307	848	232	15,253

The buildings are situated in the PRC under medium-term leases.

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

If the buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$6.29 million (2007: HK$6.55 million).

At the balance sheet date, the Group has pledged leasehold land and building with an aggregate amount of HK$9,889,884 (2007: Nil), and machinery of HK$292,888 (2007: HK$335,000) to secure general banking facilities granted to the Group.

17. INTANGIBLE ASSETS

	Development cost HK$'000
The Group	
COST	
At 1 January 2007	17,506
Exchange rate adjustments	833
Additions	3,497
Disposal	(3,330)
At 31 December 2007	18,506
Exchange rate adjustments	706
Additions	8,660
Disposal	–
At 31 December 2008	27,872
AMORTISATION AND IMPAIRMENT	
At 1 January 2007	3,281
Exchange rate adjustments	229
Charge for the year	526
Written off	(3,330)
At 31 December 2007	706
Exchange rate adjustments	40
Charge for the year	620
Written off	–
At 31 December 2008	1,366
Net Book Values	
At 31 December 2008	26,506
At 31 December 2007	17,800

17. INTANGIBLE ASSETS *(continued)*

	Development cost HK$'000
The Company	
COST	
At 31 December 2008 and 31 December 2007	3,840

Intangible assets represent development costs which comprise fees paid to medical research institutions and expenses incurred in developing new pharmaceutical products.

The management of the Group reviews the carrying values of the intangible assets regularly and provides impairments on intangible assets, if necessary.

18. LEASE PREMIUM FOR LAND

	The Group	
	2008 HK$'000	2007 HK$'000
Net book value at 1 January	1,243	1,191
Exchange rate adjustment	70	83
	1,313	1,274
Amortisation for the year	(32)	(31)
Net book value at 31 December	1,281	1,243
Current portion of non-current assets	(33)	(31)
Non-current portion	1,248	1,212

The leasehold land is held under medium-term lease and situated in the PRC.

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2008 HK$'000	2007 HK$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	61,714	54,354
	61,715	54,355

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the Company will not demand for repayment within twelve months from the balance sheet date and the advances are therefore shown as non-current.

Details of the Company's principal subsidiaries as at 31 December 2008 are set out as follows:

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held Direct	Percentage of equity interest held Indirect	Place of incorporation/ registration	Principal activities
Lee's Pharmaceutical International Limited	US$1	100%	–	The British Virgin Islands	Investment holding
Lee's Pharmaceutical (HK) Limited	HK$18,400,000	–	100%	Hong Kong	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd.	US$2,000,000	–	100%	PRC	Manufacture and sale of pharmaceutical products

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held Direct	Indirect	Place of incorporation/ registration	Principal activities
China Oncology Focus Limited	US$1	–	100%	The British Virgin Islands	Not yet commenced business
Lee's Pharmaceutical (Asia) Limited	HK$2	–	100%	Hong Kong	Trading of pharmaceutical products
Lee's Ever Prosperous Pharmaceutical Technology Consulting Limited	HK$1	–	100%	Hong Kong	Dormant

20. INVENTORIES

	The Group	
	2008 HK$'000	2007 HK$'000
At cost		
Raw materials	1,456	1,722
Work-in-progress	2,328	1,177
Finished goods	3,083	5,622
	6,867	8,521

Included above are raw materials which are carried at net realisable value of HK$Nil (2007: Nil) at the balance sheet date.

21. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers. The fair value of the Group's trade receivables at 31 December 2008 approximate to the corresponding carrying amount.

The following is an aging analysis of trade receivables at the balance sheet dates:

	The Group	
	2008 HK$'000	2007 HK$'000
1-90 days	16,869	8,729
91-180 days	912	283
181-365 days	265	63
Over 365 days and under 3 years	162	75
	18,208	9,150
Less: Allowance for bad and doubtful debts	(294)	(107)
	17,914	9,043

Movement in allowance for bad and doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	107	61
Exchange rate adjustments	6	3
Provision for doubtful debts	181	43
	294	107

22. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2008 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at the balance sheet dates:

	The Group	
	2008 HK$'000	2007 HK$'000
1-90 days	1,598	5,809
91-180 days	–	–
181-365 days	–	–
Over 365 days	–	–
	1,598	5,809

23. BANK OVERDRAFT AND BORROWINGS

	The Group	
	2008 HK$'000	2007 HK$'000
Secured		
– Overdraft	–	–
– Bank loans	3,837	4,678
– Other loans	–	–
	3,837	4,678

The bank loans are interest-bearing at 5% – 7% per annum (2007: 5% – 7% per annum).

23. BANK OVERDRAFT AND BORROWINGS *(continued)*

The borrowings are secured by the Group's leasehold land and buildings and owned machinery.

	The Group	
	2008 HK$'000	2007 HK$'000
Carrying amount of the borrowings are repayable:		
Within one year	3,837	4,228
More than one year but not exceeding two years	–	450
	3,837	4,678

24. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each		Amount	
	2008	2007	2008 HK$'000	2007 HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning of the year	413,125,000	346,225,000	20,656	17,311
Exercise of share options	2,150,000	1,050,000	108	53
Issue of new shares upon exercise of warrants	–	65,850,000	–	3,292
At end of the year	415,275,000	413,125,000	20,764	20,656

25. RESERVES

	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
The Company					
At 1 January 2008	44,154	9,200	851	(8,002)	46,203
Employee share option benefits	–	–	316	–	316
Exercise of share options	379	–	(79)	–	300
2007 final dividend	–	–	–	(3,319)	(3,319)
2008 interim dividend	–	–	–	(2,074)	(2,074)
Net profit for the year	–	–	–	3,492	3,492
At 31 December 2008	44,533	9,200	1,088	(9,903)	44,918
At 1 January 2007	32,496	9,200	666	(11,684)	30,678
Employee share option benefits	–	–	226	–	226
Exercise of share options	203	–	(41)	–	162
Issue of new shares upon exercise of warrants	11,455	–	–	–	11,455
Net profit for the year	–	–	–	3,682	3,682
At 31 December 2007	44,154	9,200	851	(8,002)	46,203

25. RESERVES *(continued)*

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 35.

The Company's reserves available for distribution to shareholders as at 31 December 2008 was HK$44.92 million (2007: HK$46.2 million).

The merger difference represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 2002.

The Company's reserves available for distribution represent the share premium, merger difference and accumulated losses. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

26. COMMITMENTS

	The Group	
	2008 HK$'000	2007 HK$'000
(a) Capital commitments in respect of acquisition of property, plant and equipment	2,720	–

	2008 HK$'000	2007 HK$'000
(b) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	1,445	1,059
In more than one year but not exceeding five years	1,328	476
	2,773	1,535

27. SHARE OPTIONS SCHEME

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and share option scheme (the "Share Option Scheme") were adopted pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002 for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,014,000 (2007: 16,379,000) representing 4.34% (2007: 3.96%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 10% of the shares of the Company in issue at the time of listing, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

Details of the Company's Pre-IPO Share Option Scheme are summarised as follow:

Date of grant	Outstanding at 01.01.2008	Granted/exercised/ cancelled/lapsed during the year	Outstanding at 31.12.2008	Exercise period	Exercise price per share
Category I: Directors					
26.06.2002	1,600,000	–	1,600,000	26.06.2004-25.06.2012	HK$0.280
Category II: Employees					
26.06.2002	50,000	(50,000)	–	26.06.2004-25.06.2012	HK$0.280
	1,650,000	(50,000)	1,600,000		

27. SHARE OPTIONS SCHEME *(continued)*

Details of the Company's Share Option Scheme are summarised as follow:

Date of grant	Outstanding at 01.01.2008	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2008	Exercise period	Exercise price per share
Category I: Directors							
13.01.2003	3,179,000	–	–	–	3,179,000	13.07.2003-12.01.2013	HK$0.405
11.07.2005	1,100,000	–	(300,000)	–	800,000	11.01.2006-10.07.2015	HK$0.159
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
Category II: Employees							
13.01.2003	400,000	–	(100,000)	–	300,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	5,650,000	–	(850,000)	–	4,800,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	3,400,000	–	(850,000)	–	2,550,000	11.01.2006-10.07.2015	HK$0.159
02.01.2008	–	1,355,000	–	(70,000)	1,285,000	02.07.2008-01.01.2018	HK$0.492
Category III: Consultant							
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
02.01.2008	–	2,000,000	–	–	2,000,000	02.07.2008-01.01.2018	HK$0.492
26.11.2008	–	500,000	–	–	500,000	26.05.2009-25.11.2018	HK$0.383
	14,729,000	3,855,000	(2,100,000)	(70,000)	16,414,000		

27. SHARE OPTIONS SCHEME *(continued)*

Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
26.06.2002	(i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	0.280
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218
11.07.2005	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	0.492
26.11.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	0.383

27. SHARE OPTIONS SCHEME *(continued)*

The following table summarised movements in the Company's share options during the year:

	Outstanding at 01.01.2008	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2008
Directors					
Lee Siu Fong	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	289,000	–	–	–	289,000
Li Xiaoyi	2,890,000	–	–	–	2,890,000
Lam Yat Cheong	300,000	–	–	–	300,000
Tsim Wah Keing, Karl	300,000	–	(300,000)	–	–
Mauro Bove	1,000,000	–	–	–	1,000,000
Directors' total	6,379,000	–	(300,000)	–	6,079,000
Consultant	500,000	2,500,000	–	–	3,000,000
Employees	9,500,000	1,355,000	(1,850,000)	(70,000)	8,935,000
Grand total	16,379,000	3,855,000	(2,150,000)	(70,000)	18,014,000

The Group issues equity-settled share-based payments to certain employees and consultant. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

27. SHARE OPTIONS SCHEME *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 2 January 2008 was HK$1,140,700 and 26 November 2008 was HK$113,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility range of 73.48 to 97.55 per cent;

2. expected annual dividend yield range of 1.7 to 2.13 per cent;

3. the estimated expected life of the options granted during the year is 10 years; and

4. the quoted interest rate for the Exchange Fund Notes with maturity in 2018 were 3.28 per cent and 1.601 per cent respectively which are adopted to calculate the fair value of options granted on 2 January 2008 and 26 November 2008.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

28. PLEDGED OF ASSETS

At the balance sheet date, the Group has pledged leasehold land and building with an aggregate amount of HK$9,889,884 (2007: Nil), and machinery of HK$292,888 (2007: HK$335,000) to secure general banking facilities granted to the Group.

29. RELATED PARTIES TRANSACTIONS

During the year, the Group entered into the following transactions with related parties. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

Name of related parties	Note	Nature of transactions	2008 HK$'000	2007 HK$'000
Sigma-Tau Group	(a)	Purchase of pharmaceutical product	13,421	18,897

Note:

(a) Defiante Farmaceutica, Lda is a shareholder of the Company which is also a member of Sigma-Tau Group.

30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme with maximum amount of HK$1,000 per month for each employee, which contribution is matched by employees.

The total cost charged to income of HK$135,559 (2007: HK$115,465) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2008, contributions of HK$28,000 (2007: HK$22,000) due in respect of the reporting period had not been paid over to the schemes.

FINANCIAL SUMMARY

The following is a summary of the published consolidated results and of the assets and liabilities of the Group:

RESULTS

	Year ended 31 December				
					(Restated)
	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Turnover	125,421	76,712	43,531	38,528	30,395
Cost of sales	(36,779)	(25,719)	(16,860)	(13,216)	(10,381)
Gross profit	88,642	50,993	26,671	25,312	20,014
Other revenue	1,482	973	922	1,770	623
Selling and distribution expenses	(36,983)	(22,597)	(14,420)	(14,614)	(13,207)
Research and development expenses	(2,101)	(1,499)	(1,113)	(878)	(571)
Administrative expenses	(19,954)	(14,192)	(14,737)	(11,035)	(9,723)
Profit (loss) from operations	31,086	13,678	(2,677)	555	(2,864)
Finance costs	(505)	(890)	(704)	(446)	(565)
Profit (loss) before taxation	30,581	12,788	(3,381)	109	(3,429)
Taxation	(2,521)	(1,418)	(88)	44	36
Profit (loss) attributable to shareholders	28,060	11,370	(3,469)	153	(3,393)

ASSETS AND LIABILITIES

	31 December				
					(Restated)
	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Non-current assets	51,236	38,165	33,771	30,680	24,782
Current assets	56,674	48,433	18,849	16,162	23,259
Current liabilities	(20,768)	(24,252)	(18,264)	(10,562)	(11,666)
Net current assets	35,906	24,181	585	5,600	11,593
Non-current liabilities	(1,807)	(1,521)	(1,167)	(620)	(648)
Net assets	85,335	60,825	33,189	35,660	35,727

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited ("the Company") will be held at Unit 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, Hong Kong on Tuesday, 5 May 2009 at 3:00 p.m. for the following purposes:

As ordinary business:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2008.

2. To declare the final dividend.

3. To re-elect the retiring directors and to authorize the board of directors (the "Board") to fix the directors' remuneration.

4. To re-appoint auditors and to authorize the Board to fix their remuneration.

As special business:

5. To consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:

   A. "**THAT**

      (a) subject to paragraph 5A(b) below, a general mandate be and is hereby generally and unconditionally approved to the directors of the Company (the "Directors") to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;

(b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph 5A(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:

(i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, or in any territory applicable to the Company); or

(ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or

(iii) any scrip dividend scheme or similar arrangement implemented in accordance with the Articles of Association of the Company;

(c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

B. "**THAT**

(a) subject to paragraph 5B(b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own shares on the Growth Enterprise Market ("GEM") of the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed (as amended from time to time), be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph 5B(a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph 5B(a) shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

C. "**THAT** conditional upon Ordinary Resolutions 5A and 5B being passed, the general mandate granted to the Directors pursuant to Ordinary Resolution 5A to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 5B, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By order of the Board
Lee's Pharmaceutical Holdings Limited
Lee Siu Fong
Chairman

Hong Kong, 20 March 2009

Notes:

(1) The Register of members will be closed from Wednesday, 29 April 2009 to Tuesday, 5 May 2009 (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 28 April 2009.

(2) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(3) A form of proxy for use at the above meeting is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.

(4) A circular containing further details regarding items 3 and 5 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to shareholders together with 2008 Annual Report.