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)

Annual Report 2009

* For identification purpose only 僅供識別

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

Units 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

King & Wood (Hong Kong law)
Beijing Wuhuan Law Firm (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Rooms 1712-1716,
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

CORPORATE PROFILE

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 15 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 22 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.

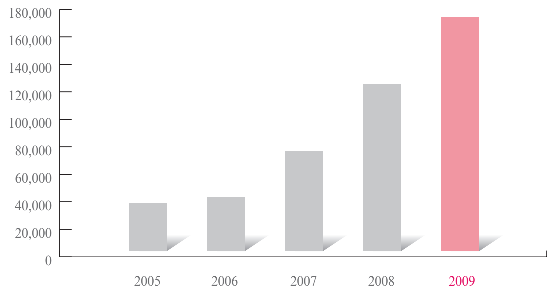
Currently, the Group has the following products in the market:

	Country of origin	Market		Medical application
		PRC	Hong Kong	
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
Gelclair®	Italy		✓	Mucositis induced by chemo & radiotherapy

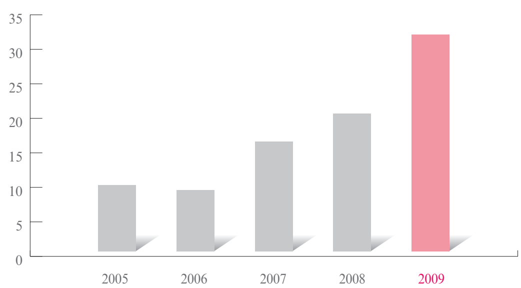
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**173,837**	125,421	76,712	43,531	38,528
Profit (loss) attributable to shareholders	**46,369**	28,060	11,370	(3,469)	153
Net asset value (Shareholders' funds)	**144,730**	85,335	60,825	33,189	35,660
	HK cents	HK cents	HK cents	HK cents	HK cents
Net assets per share	**32.15**	20.55	14.72	9.59	10.30
Basic earnings (loss) per share	**10.85**	6.77	3.11	(1.00)	0.04
Interim dividend per share	**0.8**	0.5	–	–	–
Final dividend per share	**1.6**	1.1	0.8	–	–
	2.4	1.6	0.8	–	–
Dividend payout ratio	**22.1%**	23.6%	25.7%		

TURNOVER OF THE GROUP (HK$'000)



NET ASSETS PER SHARE (HKcents)



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				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Turnover	173,837	125,421	76,712	43,531	38,528
Cost of sales	(49,262)	(36,779)	(25,719)	(16,860)	(13,216)
Gross profit	124,575	88,642	50,993	26,671	25,312
Other revenue	4,911	1,482	973	922	1,770
Selling and distribution expenses	(47,842)	(36,983)	(22,597)	(14,420)	(14,614)
Research and development expenses	(5,686)	(2,101)	(1,499)	(1,113)	(878)
Administrative expenses	(22,486)	(19,954)	(14,192)	(14,737)	(11,035)
Profit (loss) from operations	53,472	31,086	13,678	(2,677)	555
Finance costs	(689)	(505)	(890)	(704)	(446)
Profit (loss) before taxation	52,783	30,581	12,788	(3,381)	109
Taxation	(6,414)	(2,521)	(1,418)	(88)	44
Profit (loss) attributable to shareholders	46,369	28,060	11,370	(3,469)	153

ASSETS AND LIABILITIES

	31 December				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Non-current assets	89,515	51,236	38,165	33,771	30,680
Current assets	119,051	56,674	48,433	18,849	16,162
Current liabilities	(50,859)	(20,768)	(24,252)	(18,264)	(10,562)
Net current assets	68,192	35,906	24,181	585	5,600
Non-current liabilities	(12,977)	(1,807)	(1,521)	(1,167)	(620)
Net assets	144,730	85,335	60,825	33,189	35,660

CHAIRMAN'S STATEMENT

It is my great pleasure to present the annual results of 2009, a banner year for the Group not only in sales and profit, but also in research & development and corporate development.

Riding on the positive momentum of 2008, the Group recorded its third consecutive year of high double digits growth in sales and profit in 2009. For the year ended 31 December 2009, turnover increased 38.6% to HK$173,837,000, whereas profit attributable to shareholders increased 65.2% to HK$46,369,000 compared to the level of 2008. The strong organic growth was fueled by impressive performances of all products, regardless its year in the market. The newer products such as *Slounase*® and Iron Proteinsuccinylate Oral Solution, which have been launched since 2006 and 2007 respectively, continued to achieve phenomenal growth with sales leap of 68.5% and 120.4% respectively during the year 2009. Sales of *Livaracine*®, *Yallaferon*® and *Carnitene*® which were all first launched more than five years ago, increased by 39.4%, 21.7% and 14.2% respectively for the year 2009. With record sales, the Group also saw record profit with improvement in both gross profit margin (71.7% in 2009 vs. 70.7% in 2008) and net profit margin (26.7% in 2009 vs. 22.4% in 2008) that resulted from improvement of production and operation efficiency and effect of economy of scale.

2009 was also marked as a breakthrough year for the Group in drug development. The first-in-class anti-platelet drug *Declotana*® has become the first new drug entity in its class to be tested in human in the world. This significant milestone is made possible by the decade long dedication and relentless scientific pursuit by the R&D team of the Group. The preliminary phase I study has demonstrated expected pharmacodynamic effect and satisfactory safety profile that warrants an aggressive development program. It is the Group's intention to move this exciting product through the clinical development stages as swiftly as possible. Meanwhile, the Group has been making excellent progress in its other proprietary anti-angiogenesis drug and preliminary animal study has confirmed its potent anti-cancer activity. A development program has been put into place to accelerate the development of this product.

Having formed a strategic partnership with its industrial shareholder Sigma-Tau from Europe, the Group broadened its shareholders bases by placing shares to a strategic shareholder, Vivo Ventures Fund Cayman VI, L.P. ("Vivo") in August, 2009. With Vivo's vast network in bioscience community in the United States of America, it can help facilitate the Group's access to further partnership in product licensing and technology transfer, expanding the Group's product portfolio and strengthening the Group's ability for sustainable growth.

CHAIRMAN'S STATEMENT

Looking ahead, I am thrilled with the prospect of the Group in 2010 and beyond. In the corporate front, having met the financial requirement of listing on the main board of Hong Kong Stock Exchange, the Group is contemplating the switch of its listing from the Growth Enterprise Market to the main board in the first half of 2010. The ensuing listing on the main board could enhance the profile of the Group, providing broader growth opportunity to the Group.

The growth momentum of sales will be boosted by enlistment of the Group's product on the national reimbursement scheme and by launching of new products. Two of the Group's existing products have been included in the newly published China's National Drug Reimbursement List. The implement of reimbursement scheme will broaden the reach of the products and accelerate its penetration in the market place. In addition, the Group is expected to launch at least three new licensed products, *Zanidip*®, *Dafnegin*® and *Veloderm*® in first half of 2010.The significant increase in the number of products in the market place will not only broaden the revenue base for sustainable growth, but also propel the Group to a new level of scale of economy.

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, 5 March 2010

BUSINESS REVIEW

During the year under review, despite overall difficult economical environment, the pharmaceutical industry in the PRC maintained its growth trend. The proposed healthcare reform that includes extension of medical reimbursement scheme for rural residents also provides growth opportunity for the industry. For the Group, 2009 was a banner year not only for sales and profit, but also for drug research & development and corporate development.

Turnover and Profit

The Group's positive momentum of growth remained strong in 2009 with record high in both turnover and net profit. The turnover of HK$173,837,000 and net profit of HK$46,369,000 for the year 2009 represented increase of 38.6% and 65.2% respectively compared with previous year.

Manufacturing Facility

The Group's manufacturing facility of lyophilized powder for injection in Hefei was inspected by China SFDA for renewal of GMP certification in October, 2009. The facility was found in compliance with the Good Manufacturing Practice of China and renewal of GMP certification was subsequently obtained.

After major renovation of its injection production facility in 2008, the Group focused on upgrading and expanding its purification facility to meet the increasing market demand in 2009. New automatic purification systems were installed and erected with online monitoring for better quality control. The investment has resulted in more than doubling of the Group's purification production capacity.

Drug Development

2009 was also marked as a breakthrough year for the Group in drug development. The first-in-class anti-platelet drug *Declotana*® has become the first new drug entity in its class to be tested in human in the world. This significant milestone is made possible by the decade long dedication and relentless scientific pursuit by the R&D team of the Group. The preliminary phase I study has demonstrated expected pharmacodynamic effect and satisfactory safety profile that warrants an aggressive development program. It is the Group's intention to move this exciting product through the clinical development stages as swiftly as possible. *Declotana*® is a platelet 1b receptor antagonist and effectively inhibits platelet adhesion and subsequent aggregation. It is developed for prevention of thrombosis in patients undergone PTCA and stenting as well as for treatment of ischemic heart diseases such as unstable angina.

The Group has also been making excellent progress in its other proprietary drug originated from its in-house discovery program. The novel protein possesses both in vitro and in vivo anti-angiogenesis activities and preliminary animal study has confirmed its potent anti-cancer activity. A development program has been put into place to accelerate the development of this product. This product represents one of six products that are under development by the Group in the areas of cancer treatment or cancer treatment supporting care as the Group is making its headway in oncology drug development.

Overall, the Group has 22 products under different development stages, ranging from preclinical study to phase III clinical study and NDA submission with focusing in areas of cardiovascular, gynecology, dermatology, CNS, wound healing and oncology. Three clinical studies were concluded in 2009 and six new clinical study programs are running currently. Several approvals for clinical studies are expected this year, highlighting the commitment of the Group to sustain growth through innovation and development.

Last, but not least, the Group's R&D facility in Hong Kong was in full service last year, providing great support to R&D efforts in Hefei. The facility has improved the efficiency and productivity of the Group's R&D works.

Imported Products Registration

During 2009, the Group made six registration related submissions to China SFDA for six different licensed products, continuing to augment the product pipeline.

One of the submission led to the successful renewal of Imported Drug License in January 2010 for marketing of Iron Proteinsuccinylate Oral Solution in the PRC. This achievement will enable the group to continue its effort in expanding its market in the PRC. Sales of Iron Proteinsuccinylate Oral Solution had increased significantly by 120.4% for the year 2009 over 2008.

The Group has also successfully obtained the Registration Certificate of Medical Device for marketing of *Veloderm*® in the PRC. *Veloderm*® is wound dressing composed of pure cellulose microfibrils used for clinical management of cutaneous lesions and ulcers. It is indicated as a temporary skin substitute in case of superficial epidermal loss such as burns, wounds, abrasions and ulcers. The successful registration of *Veloderm*® in China ascertains the Group's ability to navigate the complex regulatory pathways of China SFDA and bring in licensed products into the market place.

The registration of *Challenger*® balloon and Bemiparin is under final review by the China SFDA. The anticipated launch of those products in the coming months could further widen the profitability of the Group.

International Partnerships

The Group concluded a license agreement with Nippon Shinyaku Co. Ltd., a listed, research driven pharmaceutical company in Japan, for pharmaceutical product containing antibacterial agent "Prulifloxacin" for the treatment of urinary tract infections and respiratory tract infections. Japan is the second largest pharmaceutical market in the world and its pharmaceutical companies are renowned for their drug development capability and product quality. Giving the Group's partnerships with US and European companies only, the alliance with Nippon Shiyaku of Japan presents new horizon of opportunity for the Group, enabling future access to Japanese product and technology.

The Group also executed a collaboration and license agreement with Jennerex, Inc for the clinical development and commercialization of the product JX-594 in the PRC, Hong Kong and Macau. JX-594 is the newest generation of oncolytic virus that could revolutionize the treatment of cancer. Phase II study has been ongoing in US and Asia with promising results. A global, pivotal phase III study for the treatment of hepatocellular carcinoma (HCC) under US FDA Special Protocol Assessment program will be conducted. The Group will be partner in the study and global approval will be sought after conclusion of the study.

In 2009, the Group signed a license agreement with Recordati Ireland Limited for the distribution and marketing of *Zanidip*® (Lercanidipine tablets) in Hong Kong and Macau. *Zanidip*® is Calcium Channel Blockers (CCBs) indicated for the treatment of hypertension. CCB is the most prescribed class of anti-hypertension drugs today and *Zanidip*® is the latest CCB with better selectivity and safety profile. For PRC, the Group has secured the exclusive distributorship for *Dafnegin*® from Polichem, a Swiss company. *Dafnegin*® is registered in China and is indicated for Candiadis, a condition with relatively high prevalence in China.

In the corporate development front, the Group also expanded its strategic partnership. Having formed a strategic partnership with its industrial shareholder Sigma-Tau from Europe, the Group broadened its shareholders bases by placing shares to a strategic shareholder, Vivo Ventures Fund Cayman VI, L.P. ("Vivo") in August 2009. With Vivo's vast network in bioscience community in the United States of America, it can help facilitate the Group's access to further partnership in product licensing and technology transfer, expanding the Group's product portfolio and strengthening the Group's ability for sustainable growth.

Sales and Marketing

The sales remained strong in the year of 2009, evidenced by an increase of 39% over the year before. The strong organic growth was fueled by impressive performances of all products, regardless its year in the market. The newer products such as *Slounase*® and Iron Proteinsuccinylate Oral Solution, which have been launched since 2006 and 2007 respectively, continued to achieve phenomenal growth with sales leap of 68.5% and 120.4% respectively during the year 2009. Sales of *Livaracine*®, *Yallaferon*® and *Carnitene*® which were all first launched more than five years ago, increased by 39.4%, 21.7% and 14.2% respectively for the year 2009. It is worth mentioning that *Livaracine*® has maintained its market leadership despite presence in the market for more than ten years. *Livaracine*®'s distinct quality was recognized by the central government in June, 2009 which could further help to consolidate its market leadership position.

The marketing team was strengthened in 2009 with introduction of product manager system for better brand management and product life cycle management. Comprehensive marketing program including brand building, seminar and professional conference was tailor-made for each product to drive its sales. In addition, in anticipation of more new product launch, the marketing team was expanded and injected with unique experiences with qualified personnel.

In sales area, the Group made great effort to complement its existing distributorship model with detailing sales model in 2009. As the Group expands its products' reach to specialized areas such as oncology and burn, effective and efficient delivery of product related message and knowledge are critical to successful sales. To this end, the Group increased its detailing sales team's presence from three cities to twelve cities in 2009. The increasing investment in the detailing sales model is expected to accelerate the penetration of the Group's product in the market place, to boost the sales in the existing distributorship model and to make the Group's sales and marketing organization more competitive in the pharmaceutical industry in PRC.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2009 was HK$173,837,000, representing an increase of HK$48,416,000 or 38.6% from previous year. The growth was mainly contributed by *Slounase*® and *Livaracine*® with sales increased by 68.5% (HK$ 20 million) and 39.4% (HK$11 million) respectively for the year 2009. The sales of new product Iron Proteinsuccinylate Oral solution, also increased by 120.4% or HK$5.7 million for the year. Sales of *Yallaferon*® and *Carnitene*® for the year 2009 also increased by 22% and 14% respectively. Profit attributable to shareholders reached HK$46,369,000 for the year 2009, an increase of 65.2% over 2008.

Gross Profit Margin

Gross profit margin for the year 2009 was 71.7%, represented an improvement compared with gross profit margin of 70.7% for the year 2008. 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 2009 increased by HK$2,532,000 compared with that of 2008. 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 2009 was 27.5%, represented an improvement comparing with 29.5% for that of last year.

Liquidity and Financial Resources

As at 31 December 2009, the Group had cash and bank balances and pledged bank deposits of approximately HK$62.49 million (31 December 2008: HK$24.2 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 2.34 times (31 December 2008: 2.73 times). As at 31 December 2009, the Group had bank and other borrowings of approximately HK$16.67 million and shareholders' funds of approximately HK$144.73 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 2009 and 31 December 2008.

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 2009, the Group has pledged leasehold land and building with an aggregate amount of HK$9,284,721 (31 December 2008: leasehold land and building of HK$9,889,884 and machinery of HK$292,888) to secure general banking facilities granted to the Group. Motor vehicle with carrying value of HK$745,755 (31 December 2008: Nil) was held under finance lease.

In addition, time deposits of HK$2.01 million were pledged as securities for banking facilities as at 31 December 2009 (31 December 2008: HK$2.01 million).

Contingent Liabilities

As at 31 December 2009, the Group had no contingent liabilities.

Employee Information

As at 31 December 2009, the Group had 287 employees (2008: 249 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$30.13 million (2008: HK$22.3 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

The Group has entered into a very exciting growth phase and is expected to make significant strikes in many areas in 2010 and beyond.

In the corporate front, having met the financial requirement of listing on the main board of Hong Kong Stock Exchange, the Group is contemplating the switch of its listing from the Growth Enterprise Market to the main board in the first half of 2010. The ensuing listing on the main board could enhance the profile of the Group, providing broader growth opportunity to the Group.

The growth momentum of sales will be boosted by enlistment of the Group's product on the national reimbursement scheme and by launching of new products. Two of the Group's existing products have been included in the newly published China's National Drug Reimbursement List. The implement of reimbursement scheme will broaden the reach of the products and accelerate its penetration in the market place. In addition, the Group is expected to launch at least three new licensed products, *Zanidip*®, *Dafnegin*® and *Veloderm*® in first half of 2010. The significant increase in the number of products in the market place will not only broaden the revenue base for sustainable growth, but also propel the Group to a new level of scale of economy.

Livaracine®, which is one of the Group's flagship products with over 11 years of clinical experiences, was recognized by the PRC government for its distinct quality in June 2009. The recognition will undoubtedly boost the product's acceptance by the medical community and help to consolidate its market leadership position.

Together with China Opportunity, a private equity fund and Sigma-Tau, the Group has acquired the complete assets of *Zingo*® (lidocaine hydrochloride monohydrate) powder intradermal injection system, including technology know-how, manufacturing equipment and global marketing right. *Zingo*® was approved by FDA of US to reduce the pain associated with peripheral IV insertions or blood draws. A pilot plant will be set up in the Hong Kong Science Park for the manufacturing of the product and US relaunch of the product is expected in 24 to 30 months. This investment signifies the Group's commitment to diversify its revenue streams and to build more solid foundation for future growth.

The Group is well positioned in China's pharmaceutical industry as a fully integrated specialty pharmaceutical company to benefit from the rapid growth of the industry. It is the Group's intention to not only maintain, but also accelerate its positive growth momentum in 2010 and beyond.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 53

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, 56

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, 47, 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, *55*

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 almost thirty 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 S.A. ("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).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director & chairman of audit committee, 47, 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, 48, 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 22 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, 51, 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Wang Xian Shun

Chief engineer, 73, 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, 51

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 seventeen years of work 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 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 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 37.

An interim dividend of HK$0.008 (2008: HK$0.005) per share, amounting to HKHK3,586,000 was paid to shareholders on 24 September 2009.

The Board of Directors recommended a final dividend of HK$0.016 (2008: HK$0.011) per share to shareholders registered in the Company's Register of Members as at the close of business on 30 April 2010. Upon approval by shareholders, the final dividend will be paid on or about 14 May 2010.

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 5 in the annual report.

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 28 and 32 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 29 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 2009, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$60.64 million. This includes the Company's share premium in the amount of HK$63.49 million at 31 December 2009, 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 19.78% in aggregate for the Group's total turnover for the year (2008: 18.03%).

Purchase from the Group's five largest suppliers accounted for approximately 86.57% in aggregate for the Group's total purchases for the year (2008: 82.1%). The largest supplier of the Group accounted for approximately 44.98% of the Group's total purchases (2008: 48.8%).

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.

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, Ms. Leelalertsuphakun Wanee, Mr. Mauro Bove and Mr. Lam Yat Cheong 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. Salaries and allowances are determined by the Board and current salaries and allowances are HK$111,090 per month for Ms. Leelalertsuphakun Wanee and HK$90,750 per month for Ms. Lee Siu Fong. Bonus will be paid at the absolute discretion of the Board.

Dr. Li entered into a service contract with the Company for an initial term of three years commenced from 1 September 2003 and after the contract having been renewed for an additional period of one year from 1 September 2006, it has been renewed for another three years from 1 September 2007. Salary and allowances is HK$159,793 per month. Bonus will be paid at the absolute discretion of the Board. 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 and Dr. Li together, 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.

Each of Mr. Lam Yat Cheong ("**Mr. Lam**") and Dr. Tsim Wah Keung, Karl ("**Dr. Tsim**") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive Director. Mr. Lam has a three-year service contract with the Company from 1 July 2007 and Dr. Tsim has a three-year service contract with the Company from 20 September 2007. Director's fee is HK$50,000 per annum and bonus will not be paid for each of the Directors.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007. Director's fee is HK$50,000 per annum and bonus will not be paid.

Dr. Mauro Bove has a three-year service contract with the Company commenced on 3 January 2009. Director's fee is HK$75,000 per annum and bonus will not be paid.

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 2009 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2009**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 31.12.2009**
Directors						
Lee Siu Fong	26.06.2002	1,600,000	–	(1,600,000)	–	–
	25.09.2009	–	448,000	–	–	448,000
Leelalertsuphakun Wanee	13.01.2003	289,000	–	(289,000)	–	–
	27.08.2009	–	448,057	–	–	448,057
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
	25.09.2009	–	448,000	–	–	448,000
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
Sub-total of Directors		6,079,000	1,344,057	(1,889,000)	–	5,534,057
Employees	13.01.2003	300,000	–	–	–	300,000
	25.06.2004	4,800,000	–	(2,010,000)	(100,000)	2,690,000
	11.07.2005	2,550,000	–	(200,000)	–	2,350,000
	02.01.2008	1,285,000	–	(465,000)	–	820,000
Consultants	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 consultants		11,935,000	–	(2,675,000)	(100,000)	9,160,000
Grand total		18,014,000	1,344,057	(4,564,000)	(100,000)	14,694,057

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	

Date of Grant	Exercise period		Exercise price per share *HK$*
27.08.2009	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 27.02.2010 - 26.08.2019.	1.03
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 27.11.2010-26.08.2019	
25.09.2009	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.03.2010- 24.09.2019	1.076
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.12.2010-24.09.2019	

Save as disclosed above, as at 31 December 2009, 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 2009, 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		2,504,375		
	Interest of corporation	(i)	124,690,625	127,195,000	28.26
Leelalertsuphakun Wanee	Beneficial owner		1,749,000		
	Interest of corporation	(i)	124,690,625	126,439,625	28.09
Li Xiaoyi	Beneficial owner		35,110,000		
	Interest of spouse	(ii)	16,000,000	51,110,000	11.35
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.26
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.07

Notes:

(i) 124,690,625 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	448,000	448,000
Leelalertsuphakun Wanee	Beneficial owner	448,057	448,057
Li Xiaoyi	Beneficial owner	3,338,000	3,338,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
		5,534,057	5,534,057

(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	127,195,000	448,000	127,643,000
Leelalertsuphakun Wanee	126,439,625	448,057	126,887,682
Li Xiaoyi	51,110,000	3,338,000	54,448,000
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 2009 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 2009, 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	26.72
Defiante Farmaceutica, S.A.	Beneficial owner		132,350,000	29.40
Life Science Intelligence Limited	Beneficial owner		30,273,437	6.73
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.55
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.55
	Interest of spouse	(ii)	35,110,000	7.80

(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	3,338,000

(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, S.A.	132,350,000	–	132,350,000
Life Science Intelligence Limited	30,273,437	–	30,273,437
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,110,000	3,338,000	54,448,000

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 2009, 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, S.A. 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 2009 would not exceed HK$41,134,935.

For the year ended 31 December 2009, sales of *Carnitene*® and other pharmaceutical products to the Company by the Sigma-Tau Group amounted to HK$27,841,925.

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 2009.

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 2009 (2008: 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 2009.

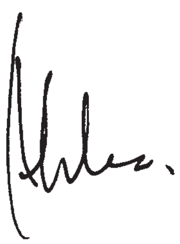
AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2009 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, 5 March 2010

CORPORATE GOVERNANCE REPORT

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 2009, 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 2009, 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 2009.

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 2009, 13 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)*	13/13	100%
Leelalertsuphakun Wanee	13/13	100%
Li Xiaoyi	13/13	100%
Non-executive Director		
Mauro Bove	2/13	15%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	13/13	100%
Lam Yat Cheong	11/13	85%
Tsim Wah Keung, Karl	8/13	62%

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.

CORPORATE GOVERNANCE REPORT

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 2009, 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 2009, 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 2009, all the remuneration paid to the Company's auditors HLM & Co. of amount HK$589,000 was audit services fee.

INDEPENDENT AUDITORS' REPORT

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

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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 37 to 100 which comprise the consolidated and Company's statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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, 5 March 2010

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	6	173,837	125,421
Cost of sales		(49,262)	(36,779)
Gross profit		124,575	88,642
Other revenue	8	4,911	1,482
Selling and distribution expenses		(47,842)	(36,983)
Research and development expenses		(5,686)	(2,101)
Administrative expenses		(22,486)	(19,954)
Profit from operations	9	53,472	31,086
Finance costs	10	(689)	(505)
Profit before taxation		52,783	30,581
Taxation	13	(6,414)	(2,521)
Net profit attributable to shareholders		46,369	28,060
Dividends	14	10,788	6,642
		HK cents	HK cents
Earnings per Share			
Basic	15	10.85	6.77
Diluted	15	10.64	6.66

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 HK$'000	2008 HK$'000
Profit attributable to shareholders	46,369	28,060
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiary	346	925
– revaluation of overseas buildings	32	194
Other comprehensive income attributable to shareholders, net of tax	378	1,119
Total comprehensive income attributable to shareholders	46,747	29,179

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current Assets			
Property, plant and equipment	16	25,085	19,582
Intangible assets	17	59,305	26,506
Lease premium for land	18	1,225	1,248
Goodwill	19	3,900	3,900
		89,515	51,236
Current Assets			
Lease premium for land	18	33	33
Inventories	21	26,814	6,867
Trade receivables	22	13,392	17,914
Other receivables, deposits and prepayments		16,318	7,666
Pledged bank deposits	23	2,012	2,012
Time deposits		–	4,662
Cash and bank balances	23	60,482	17,520
		119,051	56,674
Current Liabilities			
Trade payables	24	1,642	1,598
Other payables		39,434	14,657
Short term borrowings	25	8,355	3,837
Obligations under finance lease	26	129	–
Tax payable		1,299	676
		50,859	20,768
Net Current Assets		68,192	35,906
Total Assets less Current Liabilities		157,707	87,142

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Capital and Reserves			
Share capital	28	22,506	20,764
Reserves	29	122,224	64,571
Equity attributable to shareholders of the Company		144,730	85,335
Non-current Liabilities			
Deferred tax liabilities	27	4,161	1,807
Long-term borrowings	25	8,316	–
Obligations under finance lease	26	500	–
		12,977	1,807
		157,707	87,142

The financial statements on pages 37 to 100 were approved and authorised for issue by the Board of Directors on 5 March 2010 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current Assets			
Intangible assets	17	3,840	3,840
Interests in subsidiaries	20	64,058	61,715
		67,898	65,555
Current Assets			
Other receivables, deposits and prepayments		101	9
Cash and bank balances	23	15,505	319
		15,606	328
Current Liability			
Other payables		355	201
Net Current Assets		15,251	127
Total Assets less Current Liability		83,149	65,682
Capital and Reserves			
Share capital	28	22,506	20,764
Reserves	29	60,643	44,918
		83,149	65,682

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other comprehensive income: Revaluation reserve	Other comprehensive income: Exchange reserves	Retained profits (Accumulated losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335
Employee share option benefits	–	–	–	325	–	–	–	325
Exercise of share options	228	1,235	–	(223)	–	–	–	1,240
Issue of new shares under subscription agreement	1,514	17,723	–	–	–	–	–	19,237
2008 final dividend paid	–	–	–	–	–	–	(4,568)	(4,568)
2009 interim dividend paid	–	–	–	–	–	–	(3,586)	(3,586)
Total comprehensive income attributable to shareholders	–	–	–	–	32	346	46,369	46,747
At 31 December 2009	22,506	63,491	9,200	1,190	3,689	2,950	41,704	144,730
At 1 January 2008	20,656	44,154	9,200	851	3,463	1,679	(19,178)	60,825
Employee share option benefits	–	–	–	316	–	–	–	316
Exercise of share options	108	379	–	(79)	–	–	–	408
2007 final dividend paid	–	–	–	–	–	–	(3,319)	(3,319)
2008 interim dividend paid	–	–	–	–	–	–	(2,074)	(2,074)
Total comprehensive income attributable to shareholders	–	–	–	–	194	925	28,060	29,179
At 31 December 2008	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 HK$'000	2008 HK$'000
Operating activities		
Profit before taxation	52,783	30,581
Adjustments for:		
Depreciation of property, plant and equipment	4,221	2,730
Interest expenses	601	427
Interest income	(79)	(236)
Amortisation of intangible assets	936	620
Amortisation of leasehold premium for land	33	32
Bad debt written off	10	20
Intangible asset written off	1,358	–
Exchange difference	(20)	(562)
Share based payments	325	316
Stock written off	81	183
Allowance for bad and doubtful debts	145	181
Loss on disposal of property, plant & equipment	54	281
Operating cash flows before movements in working capital	60,448	34,573
(Increase) decrease in inventories	(19,985)	1,678
Decrease (increase) in trade receivables	4,434	(8,867)
(Increase) decrease in other receivables, deposits and prepayment	(11,172)	4,673
Increase (decrease) in trade payables	44	(4,255)
Increase in other payables	24,674	1,183
Cash from operations	58,443	28,985
Interest paid	(601)	(427)
Income tax paid	(3,458)	(2,363)
Net cash generated from operating activities	54,384	26,195

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 HK$'000	2008 HK$'000
Investing activities		
Interest received	79	236
Purchase of plant and equipment	(9,610)	(6,524)
Additions of deferred development cost	(32,394)	(8,659)
Net cash used in investing activities	(41,925)	(14,947)
Financing activities		
New loan raised	21,837	15,177
Repayment of loans	(9,033)	(16,108)
New trust receipt loans raised	661	–
Repayment of trust receipt loans	(661)	–
Proceed from obligations under finance lease	720	–
Repayment of obligations under finance lease	(90)	–
Net proceed from issuance of new shares	19,237	–
Net proceeds from issue of new shares upon exercise of share options	1,240	408
Dividend paid	(8,154)	(5,393)
Net cash from (used in) financing activities	25,757	(5,916)
Net increase in cash and cash equivalents	38,216	5,332
Cash and cash equivalents at 1 January	22,182	16,614
Effect of foreign exchange rate changes	85	236
Cash and cash equivalents at 31 December	60,483	22,182
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	60,483	17,520
Time deposits	–	4,662
	60,483	22,182

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 and revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), that are relevant to its operations and effective for annual periods beginning on or after 1 January 2009. In addition, the Group has early adopted HKFRS 3 (revised in 2008) Business Combinations, HKAS 27 (revised in 2008) Consolidated and Separate Financial Statements in advance of their effective dates.

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
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The impact of the application of the new and revised HKFRSs is discussed below.

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 3 (revised in 2008) Business Combinations

HKFRS 3 (2008) has been adopted in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the annual period beginning on or after 1 July 2009. Specifically, HKFRS 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009 in accordance with the relevant transitional provisions. The adoption of HKFRS 3 (2008) has not affected the accounting for business combinations in the current year and prior years.

HKAS 27 (revised in 2008) Consolidated and Separate Financial Statements

HKAS 27 (2008) has been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009) and has been applied retrospectively (subject to specified transitional provisions). The revised Standard has resulted in changes in the Group's accounting policies regarding changes in ownership interests in subsidiaries of the Group. The new accounting policies in relation to changes in ownership interests in subsidiaries have been applied prospectively to changes that take place on or after 1 January 2009 in accordance with the relevant transitional provisions.

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

New and revised HKFRSs affecting presentation and disclosure only *(continued)*

HKAS 27 (revised in 2008) Consolidated and Separate Financial Statements (continued)

In prior years, in the absence of specific requirement in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in existing subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

Under HKAS 27 (2008), increases or decreases in ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are dealt with in equity and attributed to the owners of the parent, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (2008) requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in profit or loss.

Except the above disclosure, the adoption of the other 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.

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 28 (Revised)	Investments in Associates[1]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedged Items[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 January 2013

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

As part of Improvement to HKFRSs (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 performance and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries after 1 January 2009

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2 Share-based Payment; and

- 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 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position 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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Leasehold buildings held for use in the production or supply of goods are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on revaluation of such land and buildings is recognised in other comprehensive income, and accumulated under the heading of properties revaluation reserve except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained profits.

Depreciation is recognised so as to write off the cost or fair value 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 profit or loss.

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 profit or loss 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 (or from the developmet phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure *(continued)*

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 listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Leasing

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised as profit or loss over the period necessary to match them with the related costs for which the grants are intended to compensate. 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.

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 of items of income or expense that are taxable or deductible in other years and 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that is probable taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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.

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. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of foreign operation. 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 other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

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 end of the reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which 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 is 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). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, 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 earnings.

Financial instruments

Financial assets and financial liabilities are recognised 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 ("AFS") 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 debt instrument 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Financial assets at FVTPL

Financial assets at FVTPL 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
- on initial recognition 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at FVTPL (continued)

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

- 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. 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. Loans and receivables (including trade and other receivables, pledged bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. 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 investment have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

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 probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are 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 amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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 with the exception of trade receivables, 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 against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Debt 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 debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities at FVTPL (continued)

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.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derivative financial instruments

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 the end of the reporting period. 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 case 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 FVTPL.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable 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 and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (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 the end of the reporting period, 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 recognised in accordance with HKAS 18.

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 end of the reporting period, 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 2009 was approximately HK$25,085,000. 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 of the end of the reporting period, 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 Group carries out an inventory review on a product-by-product basis at each of the end of the reporting period and provides 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 Group to estimate the future cash flows expected to arise 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 2009, 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.

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

Currency risk

A major subsidiary of the Company has foreign currency sales, which expose the Group to foreign currency risk. The management 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:

	Assets	**Liabilities**
	2009	2009
	HK$'000	HK$'000
Renminbi ("Rmb")	94,508	24,576

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

	Impact of Rmb
	2009
	HK$'000
Decrease in profit for the year	3,027

Interest rate risk

The Group is exposed to both cash flows 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 management monitors interest rate exposure.

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

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 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 Group reviews the recoverable amount of each individual trade debt at each of the end of the reporting period 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 flows 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 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

Application of HKFRS 8 Operating Segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. The adoption of HKFRS 8 has not resulted the change of presentation.

Principal activities are as follows:

Proprietary products – manufacture and sale of self-developed pharmaceutical products

Licensed products – trading of license-in pharmaceutical products

The following is an analysis of the Group's revenue and results by reportable segment:

	Proprietary products		Licensed products		Consolidated	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Segment turnover	106,275	71,194	67,562	54,227	173,837	125,421
Segment results	40,017	20,579	19,631	12,800	59,648	33,379
Interest income					79	236
Unallocated expenses					(6,255)	(2,529)
Profit from operations					53,472	31,086
Finance costs					(689)	(505)
Profit before taxation					52,783	30,581
Taxation					(6,414)	(2,521)
Profit attributable to shareholders					46,369	28,060

7. SEGMENT INFORMATION *(continued)*

Application of HKFRS 8 Operating Segments *(continued)*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2008: Nil).

Segment results represent the profit earned by each segment without allocation of central administration costs, interest income, finance costs, and income tax expense. This is measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Proprietary products		Licensed products		Consolidated	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Segment assets	61,753	55,214	84,318	28,501	146,071	83,715
Unallocated assets					62,495	24,195
Total assets					208,566	107,910
Segment liabilities	15,423	11,660	26,282	4,596	41,705	16,256
Unallocated liabilities					22,131	6,319
Total liabilities					63,836	22,575

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than cash and bank balances, pledged bank deposits and deferred tax assets. Goodwill is allocated to proprietary products segments.

- all liabilities are allocated to reportable segments other than current and deferred tax liabilities, and short and long term borrowings.

7. SEGMENT INFORMATION *(continued)*

Geographical information

During the years ended 31 December 2009 and 2008, 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	
	2009	2008	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	93,585	62,623	114,981	45,287	208,566	107,910
Segment liabilities	24,794	17,532	39,042	5,043	63,836	22,575

8. OTHER REVENUE

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Interest income on bank deposits	79	236
Development grants	1,625	66
Other income	3,207	1,180
	4,911	1,482

9. PROFIT FROM OPERATIONS

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	4,221	2,730
Amortisation of intangible assets	936	620
Total depreciation and amortisation	5,157	3,350
Auditors' remuneration	589	550
Staff costs	29,807	21,950
Share based payments	325	316
Research and development costs	5,686	2,101
Operating lease payments in respect of rented premises	2,669	2,142
Bad debts written off	10	20
Allowance for bad and doubtful debts	145	181
Loss on disposal of plant and equipment	54	281

10. FINANCE COSTS

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five year	601	428
Bank charges	88	77
	689	505

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 (2008: 7) directors were as follows:

The Group

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Employer's contributions to pension schemes HK$'000	2009 Total emoluments HK$'000	2008 Total emoluments HK$'000
Executive Directors					
Lee Siu Fong	–	1,155	12	1,167	1,062
Leelalertsuphakun Wanee	–	1,512	12	1,524	1,230
Li Xiaoyi	–	2,181	12	2,193	1,801
Non-executive Director					
Mauro Bove	75	–	–	75	50
Independent non-executive Directors					
Chan Yau Ching	50	–	–	50	50
Lam Yat Cheong	50	–	–	50	50
Tsim Wah Keung	50	–	–	50	50
Total	225	4,848	36	5,109	4,293

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2008: two) individuals were as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	1,142	820
Contributions to retirement benefits schemes	24	19
	1,166	839

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	
	2009 HK$'000	2008 HK$'000
Current tax		
Hong Kong	–	–
PRC Enterprise Income Tax	4,388	1,845
Over-provision in prior year	(312)	–
	4,076	1,845
Deferred tax		
Provision of current year	2,338	676
Total income tax recognised in profit or loss	6,414	2,521

13. TAXATION *(continued)*

On 26 June 2008, the Hong Kong Legislative Council passes the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5%, which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Hong Kong Profits Tax has not been provided as the Group had no assessable profit in Hong Kong for the year.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 15% (for both years).

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

	2009 HK$'000	2008 HK$'000
Profit before taxation	52,783	30,581
Notional tax at the rates applicable to results in regions concern	8,141	4,756
Tax effect of non-deductible expenses	393	214
Tax effect of non-taxable revenues	(916)	(26)
Over provision in prior year	(312)	–
Tax effect on temporary differences not recognised	1,100	11
Tax effect of tax losses not recognised	52	1
Tax effect of PRC preferential tax allowance	–	(539)
Utilisation of tax losses previously not recognised	(2,044)	(1,896)
Tax charge for the year	6,414	2,521

At the 31 December 2009, the Group has unused estimated tax losses of HK$1.71 million (2008: HK$6.2 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 profits streams.

14. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim dividend paid – HK$0.008 (2008: HK$0.005) per share	3,586	2,074
Final dividend proposed – HK$0.016 (2008: HK$0.011) per share	7,202	4,568
	10,788	6,642

The final dividend of HK$0.016 (2008: HK$0.011) 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 statement of financial position as at 31 December 2009.

15. EARNINGS PER SHARE

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

	THE GROUP	
	2009	2008
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK$46,369,000	HK$28,060,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	427,386,717	414,718,852
Effect of dilutive potential ordinary shares:		
Options	8,285,626	6,347,500
Weighted average number of ordinary shares for the purposes of diluted earnings per share	435,672,343	421,066,352

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group						
COST OR VALUATION						
At 1 January 2009	15,893	435	11,943	4,919	933	34,123
Exchange rate adjustments	141	–	106	37	8	292
Additions	556	2,029	3,497	2,436	1,092	9,610
Disposals	–	–	(203)	(61)	–	(264)
At 31 December 2009	16,590	2,464	15,343	7,331	2,033	43,761
Comprising:						
At cost	–	2,464	15,343	7,331	2,033	27,171
At valuation	16,590	–	–	–	–	16,590
	16,590	2,464	15,343	7,331	2,033	43,761
DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	5,792	196	6,473	1,973	107	14,541
Exchange rate adjustments	52	–	57	14	1	124
Charge for the year	996	354	1,747	939	185	4,221
Written off upon disposal	–	–	(149)	(61)	–	(210)
At 31 December 2009	6,840	550	8,128	2,865	293	18,676
NET BOOK VALUES						
At 31 December 2009	9,750	1,914	7,215	4,466	1,740	25,085

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 vehicles 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)*

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

If the buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$6.26 million (2008: HK$6.29 million).

At 31 December 2009, the Group has pledged leasehold land and building with an aggregate amount of HK$9,284,721 (2008: HK$9,889,884) and machinery of HK$Nil (2008: HK$292,888) for banking facilities. Motor vehicles with carrying value of HK$745,755 (2008: HK$Nil) is held under finance lease.

17. INTANGIBLE ASSETS

	License fee HK$'000	Development cost HK$'000	Total HK$'000
The Group			
COST			
At 1 January 2008	3,840	14,666	18,506
Exchange rate adjustments	–	706	706
Additions	3,900	4,760	8,660
At 31 December 2008	7,740	20,132	27,872
Exchange rate adjustments	–	165	165
Additions	31,113	3,827	34,940
Impairment	–	(1,358)	(1,358)
At 31 December 2009	38,853	22,766	61,619
AMORTISATION AND IMPAIRMENT			
At 1 January 2008	–	706	706
Exchange rate adjustments	–	40	40
Charge for the year	–	620	620
At 31 December 2008	–	1,366	1,366
Exchange rate adjustments	–	12	12
Charge for the year	61	875	936
At 31 December 2009	61	2,253	2,314
NET BOOK VALUES			
At 31 December 2009	38,792	20,513	59,305
At 31 December 2008	7,740	18,766	26,506

17. INTANGIBLE ASSETS *(continued)*

	License fee HK$'000
The Company	
COST	
At 31 December 2009 and 31 December 2008	3,840

Development costs comprise fees paid to medical research institutions and expenses incurred in developing pharmaceutical products.

18. LEASE PREMIUM FOR LAND

	THE GROUP	
	2009 HK$'000	2008 HK$'000
Net book value at 1 January	1,281	1,243
Exchange rate adjustment	10	70
	1,291	1,313
Amortisation for the year	(33)	(32)
Net book value at 31 December	1,258	1,281
Current portion of non-current assets	(33)	(33)
Non-current portion	1,225	1,248

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

19. GOODWILL

	THE GROUP	
	2009 HK$'000	2008 HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

At the end of the reporting period, the Group assessed the recoverable amount of goodwill associated with certain of the Group's selling activities. The recoverable amount of the selling activities was assessed by reference to the relevant cash-generating unit's value in use. A discount factor of 10% per annum (2008: 10% per annum) was applied in the value in use model. No write-down of the carrying amounts of assets in the cash-generating unit was necessary.

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2009 HK$'000	2008 HK$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	64,057	61,714
	64,058	61,715

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 end of the reporting period and the advances are therefore shown as non-current.

20. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's principal subsidiaries as at 31 December 2009 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
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
Powder Pharmaceuticals Incorporated	US$1	–	100%	The British Virgin Islands	Investment holding and trading of pharmaceutical products

21. INVENTORIES

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
At cost		
Raw materials	1,953	1,456
Work-in-progress	4,542	2,328
Finished goods	20,319	3,083
	26,814	6,867

Included above are raw materials which are carried at net realisable value of HK$Nil (2008: Nil) at 31 December 2009.

22. 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 2009 approximate to the corresponding carrying amount.

The following is an aging analysis of trade receivables at 31 December 2009.

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
1 – 90 days	12,882	16,869
91 – 180 days	284	912
181 – 365 days	453	265
Over 365 days and under 3 years	214	162
	13,833	18,208
Less: Allowance for bad and doubtful debts	(441)	(294)
	13,392	17,914

22. TRADE RECEIVABLES *(continued)*

Movement in allowance for bad and doubtful debts

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	294	107
Exchange rate adjustments	2	6
Provision for doubtful debts	145	181
Balance at the end of the year	441	294

23. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.019% to 0.209% (2008: 0.439% to 0.909%) per annum. The pledged bank deposits carry interest rate of 0.047% (2008: 0.18%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2,012,400 (2008: HK$2,012,400) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

24. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2009 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2009.

	THE GROUP	
	2009 HK$'000	2008 HK$'000
1 – 90 days	1,634	1,598
91 – 180 days	–	–
181 – 365 days	8	–
Over 365 days	–	–
	1,642	1,598

25. BORROWINGS

	THE GROUP	
	2009 HK$'000	2008 HK$'000
Secured bank loans [1]	16,671	3,837

	THE GROUP	
	2009 HK$'000	2008 HK$'000
Carrying amount of the borrowings are repayable:		
Within one year	8,355	3,837
More than one year but not exceeding two years	2,784	–
More than two year but not exceeding five years	5,532	–
	16,671	3,837

Note:

(1) Loan amounting to HK$5,700,000 is secured by lands and buildings. They bear interest ranging from 5.31% to 6.70% (2008: 6.70%-6.72%) per annum.

The remaining of HK$10,970,544 represents bank borrowings under Special Loan Guarantee Scheme, Trade and Industry Department. They bear interest ranging from 4%-6% (2008: Nil) per annum.

26. OBLIGATIONS UNDER FINANCE LEASE

The Group leased a motor vehicle under finance leases. The average lease term is 5 years (2008: Nil). Interest rates underlying all obligations under finance leases are 8.08% (2008: Nil) per annum. These leases have no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Amounts payable under finance leases:				
Within one year	175	–	129	–
In the second to fifth year inclusive	570	–	500	–
	745	–	629	–
Less: Future finance charges	(116)	–	n/a	n/a
Present value of lease obligations	629	–	629	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(129)	–
Amounts due for settlement after 12 months			500	–

The Group's obligations under finance leases are secured by the charge over the leased assets.

Finance lease obligations are denominated in Hong Kong dollars.

27. DEFERRED TAX LIABILITIES

The following is the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax liabilities

	Intangible asset HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2008	480	591	1,071
Exchange difference	27	33	60
Charge (credit) to profit or loss	728	(52)	676
At 31 December 2008 and 1 January 2009	1,235	572	1,807
Exchange difference	11	5	16
Charge (credit) to profit or loss	2,391	(53)	2,338
At 31 December 2009	3,637	524	4,161

28. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each		Amount	
	2009	2008	2009 HK$'000	2008 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	415,275,000	413,125,000	20,764	20,656
Exercise of share options	4,564,000	2,150,000	228	108
Issue of new shares under subscription agreement	30,273,437	–	1,514	–
At end of the year	450,112,437	415,275,000	22,506	20,764

29. 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 2009	44,533	9,200	1,088	(9,903)	44,918
Employee share option benefits	–	–	325	–	325
Exercise of share options	1,235	–	(223)	–	1,012
Issue of new shares under subscription agreement	17,723	–	–	–	17,723
2008 final dividend	–	–	–	(4,568)	(4,568)
2009 interim dividend	–	–	–	(3,586)	(3,586)
Net profit for the year	–	–	–	4,819	4,819
At 31 December 2009	63,491	9,200	1,190	(13,238)	60,643
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

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 42.

The Company's reserves available for distribution to shareholders as at 31 December 2009 was HK$60.64 million (2008: HK$44.92 million).

29. RESERVES *(continued)*

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.

30. CAPITAL COMMITMENTS

	THE GROUP	
	2009 HK$'000	2008 HK$'000
Capital commitments in respect of acquisition of property, plant and equipment	730	2,720

31. LEASE COMMITMENTS

	THE GROUP	
	2009 HK$'000	2008 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	2,669	2,142

31. LEASE COMMITMENTS *(continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	1,576	1,445
In more than one year but not exceeding five years	2,157	1,328
	3,733	2,773

32. 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 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 14,694,057 (2008: 18,014,000) representing 3.4% (2008: 4.34%) 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.

32. SHARE OPTIONS SCHEME *(continued)*

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

Date of grant	Outstanding at 01.01.2009	Granted/exercised/ cancelled/lapsed during the year	Outstanding at 31.12.2009	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	–	–	–	26.06.2004-25.06.2012	HK$0.280
	1,600,000	(1,600,000)	–		

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

Date of grant	Outstanding at 01.01.2009	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2009	Exercise period	Exercise price per share
Category I: Directors							
13.01.2003	3,179,000	–	(289,000)	–	2,890,000	13.07.2003-12.01.2013	HK$0.405
11.07.2005	800,000	–	–	–	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
27.08.2009	–	448,057	–	–	448,057	27.02.2010-26.08.2019	HK$1.030
25.09.2009	–	896,000	–	–	896,000	26.03.2010-24.09.2019	HK$1.076
Category II: Employees							
13.01.2003	300,000	–	–	–	300,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	4,800,000	–	(2,010,000)	(100,000)	2,690,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	2,550,000	–	(200,000)	–	2,350,000	11.01.2006-10.07.2015	HK$0.159
02.01.2008	1,285,000	–	(465,000)	–	820,000	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	26.11.2008-25.11.2018	HK$0.383
	16,414,000	1,344,057	(2,964,000)	(100,000)	14,694,057		

32. 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	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	

32. SHARE OPTIONS SCHEME *(continued)*

Date of Grant	Exercise period		Exercise price per share HK$
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	
27.08.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 27.02.2010 to 26.08.2019	1.030
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 27.11.2010-26.08.2019	
25.09.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 25.03.2010 to 24.09.2019	1.076
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. from 25.12.2010 to 24.09.2019	

32. SHARE OPTIONS SCHEME *(continued)*

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

	Outstanding at 01.01.2009	Granted	During the year Exercised	Lapsed	Outstanding at 31.12.2009
Directors					
Lee Siu Fong	1,600,000	448,000	(1,600,000)	–	448,000
Leelalertsuphakun Wanee	289,000	448,057	(289,000)	–	448,057
Li Xiaoyi	2,890,000	448,000	–	–	3,338,000
Lam Yat Cheong	300,000	–	–	–	300,000
Mauro Bove	1,000,000	–	–	–	1,000,000
Directors' total	6,079,000	1,344,057	(1,889,000)	–	5,534,057
Consultant	3,000,000	–	–	–	3,000,000
Employees	8,935,000	–	(2,675,000)	(100,000)	6,160,000
Grand total	18,014,000	1,344,057	(4,564,000)	(100,000)	14,694,057

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.

32. SHARE OPTIONS SCHEME *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 27 August 2009 was HK$295,270 and 25 September 2009 was HK$563,584. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility range of 70.63 to 70.95 per cent;

2. expected annual dividend yield range of 1.55 to 1.60 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 2.396 per cent and 2.363 per cent respectively which are adopted to calculate the fair value of options granted on 27 August 2009 and 25 September 2009.

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.

33. PLEDGED OF ASSETS

At 31 December 2009, the Group has pledged leasehold land and building with an aggregate amount of HK$9,284,721 (2008: HK$9,889,884), machinery of HK$Nil (2008: HK$292,888), and pledged bank deposit of HK$2,012,000 (2008: HK$2,012,000) to secure general banking facilities granted to the Group.

In addition, the Group's obligations under finance leases are secured by the lessors' title to the motor vehicle, which have a carrying amount of HK$745,755 (2008: HK$Nil).

34. 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	2009 HK$'000	2008 HK$'000
Sigma-Tau Group	(a)	Purchase of pharmaceutical product	27,842	13,421

Note:

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

35. 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$154,633 (2008: HK$135,559) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2009, contributions of HK$29,100 (2008: HK$28,000) due in respect of the reporting period had not been paid over to the schemes.

36. EVENTS AFTER THE REPORTING PERIOD

On 8 January 2010, Powder Pharmaceuticals Incorporated (PPI) has issued 49,999 new shares to Lee's Pharmaceutical International Limited and other subscribers. Upon the completion of the share issue, the Company effectively controls 25.36% equity interest of PPI. PPI was then ceased to be a subsidiary of the Company and became an associate of the Company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited (the "**Company**") will be held at Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Friday, 30 April 2010 at 3:00 p.m. for the following purposes:

As ordinary business:

1. To receive, consider and adopt 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 2009.

2. To declare the final dividend for the year ended 31 December 2009.

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(c) 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 approval in this paragraph 5A(a) above shall authorize the Directors during the Relevant Period to make and grant offers, arrangements and options which would or might require the exercise of such power after the end of the Relevant Period;

(c) 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 issued share capital of the Company 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 exclusions 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;

(d) 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 its memorandum and articles of association of the Company or any applicable laws and regulations of the 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 of Hong Kong Limited (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 repurchased 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 its memorandum and articles of association or any applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of 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, issue and otherwse deal with 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."

6. "**THAT**

(a) subject to and conditional upon the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Share to be issued pursuant to the exercise of share options which may be granted under the Scheme Mandate Limit (as defined below), the refreshment of the limit in respect of the granting of share options under the share option scheme of the Company adopted on 26 June 2002 and all other share option scheme(s) of the Company (excluding share options previously granted, including without limitation those outstanding, cancelled, lapsed or exercised in accordance with two share option schemes of the Company adopted both on 26 June 2002 or such other share option scheme(s) of the Company), shall not exceed 10% of the number of shares of the Company in issue at the date of the passing of this resolution (the "**Scheme Mandate Limit**") be and is hereby approved; and

NOTICE OF ANNUAL GENERAL MEETING

(b) any Director be and is hereby authorized to do all such acts and things and execute all such document, including under seal where applicable, as he/she considers necessary or expedient to give effect to the refreshment of the Scheme Mandate Limit and to exercise all power of the Company to allot, issue and deal with the Shares pursuant to the exercise of such options."

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

Hong Kong, 5 March 2010

Notes:

(1) The register of members of the Company will be closed from Tuesday, 27 April 2010 to Friday, 30 April 2010 (both days inclusive). In order to qualify for the right to attend and vote at the above meeting, and to qualify for the proposed final dividend for the year ended 31 December 2009, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company 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 Monday, 26 April 2010.

(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 share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not 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, 5 and 6 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to shareholders of the Company together with 2009 Annual Report.