



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 2007



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

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GEM STOCK CODE

8221

BOARD OF DIRECTORS**Executive Directors**Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wanee

*(Managing Director)*Dr. Li Xiaoyi (*Chief Executive Officer*)**Non-executive Director**

Mr. Mauro Bove

Independent Non-executive Directors

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

COMPLIANCE OFFICER

Ms. Lee Siu Fong

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Miss Luen Yee Ha, Susanne

PLACE OF BUSINESS IN HONG KONG

Unit 110-111, Bio-Informatics Centre,
No. 2 Science Park West Avenue,
Hong Kong Science Park, Shatin,
Hong Kong

REGISTERED OFFICE

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

COMPANY WEBSITEwww.leespharm.com**AUDIT COMMITTEE**

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

AUTHORIZED REPRESENTATIVE

Ms. Lee Siu Fong

Ms. Leelalertsuphakun Wanee

AUDITORS

HLM & Co., Certified Public Accountants

LEGAL ADVISERS

Arculli Fong & Ng (Hong Kong law)

An Hui Jing He Law Firm (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a research-driven and market-oriented biopharmaceutical group focused on the market of the People's Republic of China (the "PRC" or "China"). Through its wholly owned subsidiary in the PRC, Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. The Group has over 13 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 five products in China. The Group focuses on many different areas such as cardiovascular and infectious diseases, dermatology, oncology, gynecology and others with more than 15 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 three GMP-compliant workshops for the production of topical gel, lyophilized powder for injection and small volume parenteral solutions.

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
License-in products:				
Carnitene [®]	Italy	✓		Cardiac disease
Iron Proteinsuccinylate Oral Solution	Spain	✓		Sideropenic Anaemias
Horus [®] S	Italy		✓	Coronary Stent
Challenger	Italy		✓	Balloon Catheter
Hibor [®]	Spain		✓	Prevention of VTE & treatment of DVT

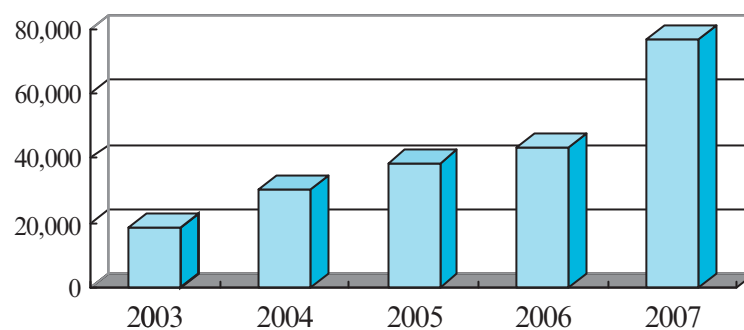
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	76,712	43,531	38,528	30,395	18,498
Gross profit	50,993	26,671	25,312	20,014	13,364
Profit (loss) attributable to shareholders	11,370	(3,469)	153	(3,393)	(5,440)
Current ratio	2.00	1.03	1.53	1.99	1.71

TURNOVER ANALYSIS:

	Three months ended 31 December		Twelve months ended 31 December	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Proprietary products	12,526	6,622	41,248	24,169
License-in products	12,700	5,888	35,464	19,362
	<u>25,226</u>	<u>12,510</u>	<u>76,712</u>	<u>43,531</u>

TURNOVER OF THE GROUP (HK\$'000)



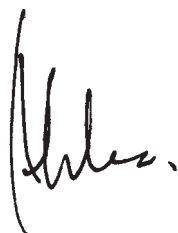
It gives me great pleasure to report that the Group has successfully achieved a remarkable turnaround in 2007, becoming a profitable entity first time in its young history. The net profit after tax was HK\$11.37 million for the year of 2007. The significant profit recorded signifies the beginning of a long period of sustained growth of profitability for the Group.

The breakthrough was the results of the Group's relentless pursuit of its strategy of building extensive sales and marketing networks through aggressive product development. Turnover for the year 2007 increased 76% compared with that of 2006, reaching a record high of HK\$76.7 million. The accelerated growth in revenue was fueled by new product launch which contributed to 27% of increased revenue and driven by significant increase in sales of existing products.

The Group has also been making great strike in drug development and partnership development. During the year of 2007, the Group submitted two self-developed and four imported products to China SFDA for registration. It completed four clinical studies for registration purpose. In addition, it formed partnership with four US and European biopharmaceutical companies for development and registration of six different products in China. One of the products Iron Proteinsuccinylate Oral Solution has been launched in China in late 2007 with very encouraging results.

In the coming year, I am confident that the growth momentum of the Group, driven by the terrific performance of existing five products as well as the anticipated launch of new product *Eyprotor*[®] in 2008, will propel the Group's revenue and profit to a new level.

Last, but not least, I would like to close by thanking 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, 18 March 2008

BUSINESS REVIEW

2007 marked a complete and successful turnaround in the Group's performance. The first profitable year also witnessed significant progress in every aspect of the business, from manufacturing to sales, and from product development to partnership expansion.

Manufacturing facility

The new manufacturing facility for eye gel was completed and trial run has been performed with success. The facility is ready for GMP inspection and certification by the China SFDA which will be carried out upon granting the New Drug Certificate in 2008.

Drug development

The technical review of the Group's New Drug Application for its fifth proprietary product *Eyprotor*[®] by China SFDA's Center for Drug Evaluation has been completed with recommendation for approval in 2007. The product is now under administrative review by the China SFDA and it is expected to be launched in 2008.

Submission for application of clinical study for two of the Group's self-developed products has been made during the year. The applications have been accepted for review and approvals for clinical study are expected in 2008. Three other self-developed products are under various stages of development.

Imported Products registration

During the year 2007, the Group submitted applications for clinical study of four imported products. The respective reviews are ongoing and approval is envisaged in 2008.

In addition, the Group successfully completed the pharmacokinetic study and clinical study of *Hibor*[®] (Bemiparin Sodium) for prevention of clotting during hemodialysis in November, 2007. The preparation of the dossier for application of Import Drug Permit is in its final stage and submission is expected soon.

The clinical studies of *Horus*[®]S coronary stent and Challenger PTA balloon has also completed in October, 2007. Clinical report for the Challenger balloon is ready and submission for Import Drug Permit will be made soon.

Imported drug Acetyl-L-Carnitine has received approval for clinical study from China SFDA during 2007 and study is scheduled to start in second quarter of 2008.

The Group has also achieved successful registration of one imported drug in China during the period. Import Drug Permit for L-Carnitine 2g injection was obtained in August, 2007.

International Partnerships

The partnership of the Group continued to expand at a rapid pace in 2007. Development and distribution agreements have been entered into with four US and European companies covering six different products.

During the year under review, the Group has formed partnership with Italian company Italfarmaco for marketing of *Serestill*[®] and Iron Proteinsuccinylate Oral Solution. The latter has been launched into the market with very encouraging results.

The Group also acquired the marketing right of *Aloxi*[®] (palonosetron hydrochloride) in China from Swiss company Helsinn. *Aloxi*[®] is the newest generation 5HT₃ receptors antagonist that has been approved in US and Europe and is currently being marketed in over 40 countries.

To make a headway in a fast growing anti-depression market in China, the Group has formed alliance with Italian company Angelini for registration and distribution of their newly formulated Trizodone in China.

The Group also signed an exclusive license agreement with Novelos Therapeutics, Inc. of US to develop and market in China, including Hong Kong and Macau, as well as in Taiwan, two of Novelos's compounds: NOV-002 for cancer and NOV-205 for hepatitis. NOV-002 is currently in phase III clinical study in US for non small cell lung cancer under a special protocol approved by US FDA.

Sales and marketing

The sales and marketing organization made a great leap in 2007, evidenced by a 76% increase in sales which was led by remarkable growth in *Slounase*[®], a product enter into its second year in market. The other three existing products *Livaracine*[®], *Yallaferon*[®] and *Carnitene*[®] also registered significant growth in volume, increasing 21%, 62% and 85% respectively over the same period of last year.

The sales and marketing team continued to evolve and mature. As a result, the Group had improved its successful rate in tender and shortened its time to market for new product launch. The maturity also reflected on the continuing expansion of local partnership in 2007. The number of local distributors has grown from 400 in 2006 to over 500 in 2007, which resulted in further penetration of the Group's product into the hospitals in China.

Substantial resources had been put into brand building in 2007, especially for *Slounase*[®]. Post marketing was carried out for *Slounase*[®] in over 300 patients, further demonstrating its efficacy and safety. Efforts had also been focused on knowledge based promotion. In this regard, 269 seminars on the Group's products had been held through out China. In addition, the Group had participated in many significant professional conferences to broaden its presence in physician community in China. The Group was presented in conferences such as Great Wall Cardiology Congress and National Congress for gynaecological tumour.

2007 also saw the launch of Iron Proteinsuccinylate Oral Solution which was the Group's second in as many years. The product has been gaining acceptance quickly in the market place and will provide additional push to accelerate the Group's growth momentum in sales and marketing.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2007 was HK\$76.7 million, representing an increase of 76% from the same period in 2006. The increase was primarily due to increase in sales of *Carnitene*[®] and our newly launched proprietary product *Slounase*[®].

Gross Profit Margin

Gross profit margin for the year 2007 was 66.5% which recorded an improvement compared with gross profit margin of 61.3% for the year 2006. The increase in gross profit margin was mainly due to higher gross profit margin for the new product *Slounase*[®] and reduction of purchase cost of license-in product *Carnitene*[®].

Administrative Expenses

Administrative expenses decreased by 3.7% mainly due to reduction in bad debt provision for the year 2007.

Selling and Distribution expenses

Selling and distribution expenses to turnover ratio for the year ended 31 December 2007 reduced to 29% compared with 33% for the same period last year due to the effectiveness of our marketing strategy. More products being launched during the year also contributed to the cost effectiveness in sales and marketing.

Exercise of Warrant

In September 2007, the Company allotted 65,850,000 shares at the exercise price of HK\$0.224 per share to Defiante Farmaceutica, Lda ("Defiante") upon exercise of warrant and Defiante's percentage holding in the Company increased from 16.71% to 29.99%. The allotment further cements the strategic partnership formed with Sigma Tau Group in 2004. The new funding will also enable the Group to continue implementation of its growth strategy and aggressively expand its product portfolio.

Dividends

The Board of Directors recommended a final dividend of HK\$0.008 per share (2006: Nil) to shareholders registered in the Company's Register of Members as at the close of business on 30 April 2008.

Liquidity and Financial Resources

As at 31 December 2007, the Group had cash and bank balances and pledged bank deposits of approximately HK\$18.63 million (31 December 2006: HK\$6.83 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 2.00 times (31 December 2006: 1.03 times). As at 31 December 2007, the Group had bank and other borrowings of approximately HK\$4.7 million and shareholders' funds of approximately HK\$60.9 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was 0% (31 December 2006 : 15%).

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 2007, plant and machinery with an aggregate net book value of approximately HK\$0.3 million (31 December 2006: HK\$10.23 million) were pledged to banks and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of HK\$2.01 million were pledged as securities for banking facilities as at 31 December 2007 (31 December 2006: HK\$2.01 million).

Contingent Liabilities

As at 31 December 2007, the Group had contingent liabilities of HK\$2.3 million (2006: Nil) in respect of outstanding letter of credit not provided for in the consolidated financial statements.

Employee Information

As at 31 December 2007, the Group had 196 employees (2006: 188 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\$13.77 million (2006: HK\$10.75 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

In light of the anticipated launch of *Eyprotor*® and *Slounase*® entering into fast growing pace, the directors are upbeat about the revenue and earning growth of the Group in 2008. It is expected that the growth momentum will continue and accelerate as a result of across board increase in product sales. The confidence in the future is further boosted by the successful expansion of international partnership and in-house drug development.

The Group currently has more than 15 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 solid foundation has been laid for sustained growth in the years to come.

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 51

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, 54

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, 45, 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 joined the Group in February 1994 and has since been responsible for the daily operation and research and development of the Group. Dr. Li is the brother of Ms. Lee and Ms. Leelalertsuphakun.

NON-EXECUTIVE DIRECTOR

Mauro Bove, 53

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

INDEPENDENT NON-EXECUTIVE DIRECTORS**Chan Yau Ching, Bob**

Independent non-executive Director & chairman of audit committee, 45, 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, 46, 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 20 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, 49, PhD, MPhil, BSc.

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

SENIOR MANAGEMENT**Wang Xian Shun**

Chief engineer, 71, 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, 49

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 fifteen years' working experience in listed companies. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and holds a Master degree in International Accounting from City University of Hong Kong.

The Board is pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

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

The Board of Directors recommended a final dividend of HK\$0.008 per share (2006: Nil) to shareholders registered in the Company's Register of Members as at the close of business on 30 April 2008. Upon approval by shareholders, the final dividend will be paid on or about 7 May 2008.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 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 72.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 15 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 23 and 26 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 24 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 2007, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$46.2 million. This includes the Company's share premium in the amount of HK\$44.2 million at 31 December 2007, 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 13.4% in aggregate for the Group's total turnover for the year (2006: 26.28%).

Purchase from the Group's five largest suppliers accounted for approximately 91.8% in aggregate for the Group's total purchases for the year (2006: 88.45%). The largest supplier of the Group accounted for approximately 72.5% of the Group's total purchases (2006: 65%).

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 Lee Siu Fong, 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.

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

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

Mr. Mauro Bove (Mr. Bove) has been non-executive director of the Company since 9 May 2005. Mr. Bove has a three-year service contract with the Company from 3 January 2006.

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

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

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

SHARE OPTION SCHEME

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

Movements of the share option during the year ended 31 December 2007 were as follows:

Grantees	Date of Grant	Number of share options				Outstanding at 31.12.2007
		Outstanding at 1.1.2007	Granted	Exercised	Lapsed	
<i>Directors</i>						
Lee Siu Fong	26.06.2002	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	–	–	–	289,000
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
Chan Yau Ching, Bob	13.01.2003	100,000	–	(100,000)	–	–
	25.06.2004	300,000	–	(300,000)	–	–
	11.07.2005	100,000	–	(100,000)	–	–
Lam Yat Cheong	11.07.2005	300,000	–	–	–	300,000
Tsim Wah Keung, Karl	11.07.2005	300,000	–	–	–	300,000
Sub-total of Directors		6,879,000	–	(500,000)	–	6,379,000
<i>Employees</i>						
	26.06.2002	50,000	–	–	–	50,000
	13.01.2003	400,000	–	–	–	400,000
	25.06.2004	5,950,000	–	(200,000)	(100,000)	5,650,000
	11.07.2005	3,750,000	–	(350,000)	–	3,400,000
<i>Consultant</i>	02.06.2006	500,000	–	–	–	500,000
Sub-total of employees and consultant		10,650,000	–	(550,000)	(100,000)	10,000,000
Grand total		17,529,000	–	(1,050,000)	(100,000)	16,379,000

Notes:

1. Particulars of share options:

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

Save as disclosed above, as at 31 December 2007, 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 2007, 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		2,334,375		
	Interest of corporation	(i)	128,290,625	130,625,000	31.62
Leelalertsuphakun Wanee	Beneficial owner		2,565,000		
	Interest of corporation	(i)	128,290,625	130,855,625	31.67
Li Xiaoyi	Beneficial owner		35,080,000		
	Interest of spouse	(ii)	16,000,000	51,080,000	12.36
Chan Yau Ching, Bob	Beneficial owner		500,000	500,000	0.12

Notes:

- (i) 128,290,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.
- (ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
Tsim Wah Keung, Karl	Beneficial owner	300,000	300,000
		6,379,000	6,379,000
		6,379,000	6,379,000

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	130,625,000	1,600,000	132,225,000
Leelalertsuphakun Wanee	130,855,625	289,000	131,144,625
Li Xiaoyi	51,080,000	2,890,000	53,970,000
Chan Yau Ching, Bob	500,000	–	500,000
Mauro Bove	–	1,000,000	1,000,000
Lam Yat Cheong	–	300,000	300,000
Tsim Wah Keung, Karl	–	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 2007 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 2007, 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 or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange 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 and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

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	29.12
Defiante Farmaceutica, Lda	Beneficial owner		123,850,000	29.98
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.87
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.87
	Interest of spouse	(ii)	35,080,000	8.49

(b) Underlying shares

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

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	120,290,625	–	120,290,625
Defiante Farmaceutica, Lda	123,850,000	–	123,850,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,080,000	2,890,000	53,970,000

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 2007, so far as is known to the Directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

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

The continuing connected transactions were approved by independent shareholders where the Cap of sales of Carnitene[®] to the Company by the Sigma-Tau Group for the year ended 31 December 2007 would not exceed HK\$20,218,900 .

For the year ended 31 December 2007, sales of Carnitene[®] to the Company by the Sigma-Tau Group amounted to HK\$18,897,000.

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 2007.

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 2007 (2006: 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 2007.

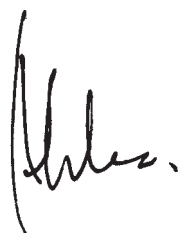
AUDIT COMMITTEE

The Group’s audited results for the year ended 31 December 2007 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, 18 March 2008

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 2007, 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 2007, 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 2007.

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 2007, 6 full board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong (<i>Chairperson</i>)	6/6	100%
Leelalertsuphakun Wanee	6/6	100%
Li Xiaoyi	6/6	100%
Non-executive Director		
Mauro Bove	1/6	17%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	4/6	67%
Lam Yat Cheong	5/6	83%
Tsim Wah Keung, Karl	3/6	50%

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

NON-EXECUTIVE DIRECTORS

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

REMUNERATION OF DIRECTORS

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

AUDIT COMMITTEE AND ACCOUNTABILITY

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

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

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

In the financial year ended 31 December 2007, 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	1/4	25%

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 2007, 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 2007, all the remuneration paid to the Company's auditors HLM & Co. of amount HK\$476,000 was audit services fee.

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 32 to 71 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 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.

Certified Public Accountants

Hong Kong, 18 March 2008

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	6	76,712	43,531
Cost of sales		(25,719)	(16,860)
Gross profit		50,993	26,671
Other revenue	7	973	922
Selling and distribution expenses		(22,597)	(14,420)
Research and development expenses		(1,499)	(1,113)
Administrative expenses		(14,192)	(14,737)
Profit (loss) from operations	8	13,678	(2,677)
Finance costs	9	(890)	(704)
Profit (loss) before taxation		12,788	(3,381)
Taxation	12	(1,418)	(88)
Net Profit (loss) attributable to shareholders		11,370	(3,469)
Dividends	13	3,305	–
		HK cents	HK cents
Earnings (loss) per Share			
Basic	14	3.11	(1.00)
Diluted	14	3.06	N/A

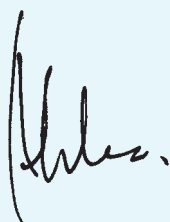
AT 31 DECEMBER 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current Assets			
Property, plant and equipment	15	15,253	14,484
Intangible assets	16	17,800	14,225
Lease premium for land	17	1,212	1,162
Goodwill		3,900	3,900
		38,165	33,771
Current Assets			
Lease premium for land		31	29
Inventories	19	8,521	4,075
Trade receivables	20	9,043	4,161
Other receivables, deposits and prepayments		12,212	3,757
Pledged bank deposits		2,012	2,012
Time deposits		10,360	–
Cash and bank balances		6,254	4,815
		48,433	18,849
Current Liabilities			
Trade payables	21	5,809	666
Other payables		13,084	6,319
Bank overdraft	22	–	819
Short term borrowings	22	4,228	10,326
Tax payable		1,131	134
		24,252	18,264
Net Current Assets		24,181	585
Total Assets less Current Liabilities		62,346	34,356

AT 31 DECEMBER 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Capital and Reserves			
Share capital	23	20,656	17,311
Reserves		40,169	15,878
Equity attributable to shareholders of the Company		60,825	33,189
Non-current Liabilities			
Deferred tax liabilities		1,071	599
Long-term borrowings	22	450	568
		1,521	1,167
		62,346	34,356

The financial statements on pages 32 to 71 were approved and authorised for issue by the Board of Directors on 18 March 2008 and are signed on its behalf by:



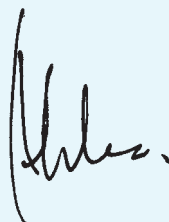
Lee Siu Fong
DIRECTOR



Leelalertsuphakun Wanee
DIRECTOR

AT 31 DECEMBER 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current Assets			
Intangible assets	16	3,840	3,840
Interests in subsidiaries	18	54,355	44,298
		<u>58,195</u>	<u>48,138</u>
Current Assets			
Other receivables, deposits and prepayments		245	82
Time deposits		8,019	–
Cash and bank balances		649	101
		<u>8,913</u>	<u>183</u>
Current Liabilities			
Other payables		249	332
Net Current Assets (liabilities)		<u>8,664</u>	<u>(149)</u>
Total Assets less Current Liabilities		<u>66,859</u>	<u>47,989</u>
Capital and Reserves			
Share capital	23	20,656	17,311
Reserves	24	46,203	30,678
		<u>66,859</u>	<u>47,989</u>



Lee Siu Fong
DIRECTOR



Leelalertsuphakun Wanee
DIRECTOR

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Share-based		Exchange reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
				Revaluation reserve HK\$'000	compensation reserve HK\$'000			
At 1 January 2007	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
Employee share option benefits	-	-	-	-	226	-	-	226
Exercise of share options	53	203	-	-	(41)	-	-	215
Issue of new shares upon exercise of warrants	3,292	11,455	-	-	-	-	-	14,747
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	226	-	852	-	1,078
Net profit for the year	-	-	-	-	-	-	11,370	11,370
At 31 December 2007	<u>20,656</u>	<u>44,154</u>	<u>9,200</u>	<u>3,463</u>	<u>851</u>	<u>1,679</u>	<u>(19,178)</u>	<u>60,825</u>
At 1 January 2006	17,311	32,496	9,200	3,106	443	183	(27,079)	35,660
Employee share option benefits	-	-	-	-	223	-	-	223
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	131	-	644	-	775
Net loss for the year	-	-	-	-	-	-	(3,469)	(3,469)
At 31 December 2006	<u>17,311</u>	<u>32,496</u>	<u>9,200</u>	<u>3,237</u>	<u>666</u>	<u>827</u>	<u>(30,548)</u>	<u>33,189</u>

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 HK\$'000	2006 HK\$'000
Operating activities		
Profit (loss) before taxation	12,788	(3,381)
Adjustments for:		
Depreciation of property, plant and equipment	2,202	1,749
Interest expenses	755	560
Interest income	(227)	(131)
Amortisation of intangible assets	524	634
Amortisation of leasehold premium for land	31	27
Bad debt written off	16	2,048
Exchange difference	(366)	76
Share based payments	226	223
Provision for slowing moving stocks	60	434
Stock written off	274	95
Allowance for bad and doubtful debts (written back)	46	(48)
Loss on disposal of property, plant & equipment	16	71
Operating cash flow before movements in working capital	16,345	2,357
Increase in inventories	(4,635)	(792)
Increase in trade receivables	(4,844)	(1,472)
Increase in other receivables, deposits and prepayment	(8,301)	(1,871)
Increase in trade payables	5,122	141
Increase in other payables	6,471	2,709
Cash from operations	10,158	1,072
Interest paid	(755)	(560)
Net cash from operating activities	9,403	512
Investing activities		
Interest received	227	131
Purchase of plant and equipment	(2,015)	(4,012)
Additions of deferred development cost	(3,496)	(682)
Net cash used in investing activities	(5,284)	(4,563)

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 HK\$'000	2006 HK\$'000
Financing activities		
New loan raised	15,066	11,786
Repayment of loans	(21,632)	(7,692)
Net proceeds from issue of new shares upon exercise of warrants and share options	14,962	–
Net cash from financing activities	<u>8,396</u>	<u>4,094</u>
Net increase in cash and cash equivalents	12,515	43
Cash and cash equivalents at 1 January	6,008	5,890
Effect of foreign exchange rate changes	103	75
Cash and cash equivalents at 31 December	<u><u>18,626</u></u>	<u><u>6,008</u></u>
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	6,254	4,815
Pledged bank deposits and time deposits	12,372	2,012
Bank overdraft	–	(819)
	<u><u>18,626</u></u>	<u><u>6,008</u></u>

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, for the first time, the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are either effective for accounting periods beginning on or after 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment

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

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

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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

Business combinations

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

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

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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

Revenue recognition

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

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

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

Investments in subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease premium for land

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

Inventories

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

Research and development expenditure

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

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

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

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

Operating lease

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses on tangible and intangible assets other than goodwill

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. 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.

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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Equity-settled share-based payment transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

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

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustments have been made to equity.

4. TURNOVER

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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

Interest rate risk

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

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 2007 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize 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 balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

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

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

6. SEGMENT INFORMATION**Business segments**

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

Principal activities are as follows:

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

6. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

	Proprietary products		Licensed products		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Segment turnover	41,248	24,169	35,464	19,362	76,712	43,531
Segment results	11,239	2,370	4,289	(3,655)	15,528	(1,285)
Interest income					227	27
Unallocated expenses					(2,077)	(1,419)
Profit (loss) from operations					13,678	(2,677)
Finance costs					(890)	(704)
Profit (loss) before taxation					12,788	(3,381)
Taxation					(1,418)	(88)
Profit (loss) attributable to shareholders					11,370	(3,469)
Segment assets	51,294	40,363	22,932	10,245	74,226	50,608
Unallocated assets					12,372	2,012
Total assets					86,598	52,620
Segment liabilities	11,550	10,247	14,223	9,184	25,773	19,431
Unallocated liabilities					—	—
Total liabilities					25,773	19,431

6. SEGMENT INFORMATION (continued)**Geographical segments**

During the years ended 31 December 2007 and 2006, 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	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	41,486	30,852	45,112	21,768	86,598	52,620
Segment liabilities	11,550	10,247	14,223	9,184	25,773	19,431

7. OTHER REVENUE

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Interest income on bank deposits	227	131
Development grants	212	97
Other income	534	694
	<u>973</u>	<u>922</u>

8. PROFIT (LOSS) FROM OPERATIONS

	The Group	
	2007 HK\$'000	2006 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	2,202	1,749
Amortisation of intangible assets	524	634
	<hr/>	<hr/>
Total depreciation and amortisation	2,726	2,383
	<hr/>	<hr/>
Auditors' remuneration	476	470
Staff costs	13,768	10,745
Share based payment	226	223
Research and development costs	1,499	1,113
Operating lease payments in respect of rented premises	1,591	1,341
Bad debts written off	16	2,048
Allowance for bad and doubtful debts (written back)	46	(48)
Loss on disposal of plant and equipment	16	71
	<hr/>	<hr/>

9. FINANCE COSTS

	The Group	
	2007 HK\$'000	2006 HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five year	755	560
Bank charges	135	144
	<hr/>	<hr/>
	890	704
	<hr/>	<hr/>

FOR THE YEAR ENDED 31 DECEMBER 2007

10. 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 (2006: 7) directors were as follows:

The Group

				2007	2006
	Fees	Salaries, allowances and other remuneration	Employer's contributions to pension schemes	Total emoluments	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive Directors					
Lee Siu Fong	–	870	12	882	852
Leelalertsuphakun Wanee	–	924	12	936	852
Li Xiaoyi	–	1,416	12	1,428	1,332
Non- executive Director					
Mauro Bove	50	–	–	50	50
Independent non- executive Directors					
Chan Yau Ching	50	–	–	50	50
Lam Yat Cheong	50	–	–	50	50
Tsim Wah Keung	50	–	–	50	50
Total	200	3,210	36	3,446	3,236

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining two (2006: two) individuals were as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	779	734
Contributions to retirement benefits schemes	24	24
	<u>803</u>	<u>758</u>

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.

12. TAXATION

	The Group	
	2007 HK\$'000	2006 HK\$'000
Current tax		
Hong Kong	–	–
The PRC	988	134
Deferred tax		
Provision/(credit) of current year	430	(46)
Taxation attributable to the Group	<u>1,418</u>	<u>88</u>

FOR THE YEAR ENDED 31 DECEMBER 2007

12. TAXATION (continued)

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

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

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

	2007 HK\$'000	2006 HK\$'000
Profit (loss) before taxation	12,788	(3,381)
Notional tax at the rates applicable to results in regions concern	2,044	(628)
Tax effect of non-deductible expenses	203	74
Tax effect of non-taxable revenues	(363)	(18)
Tax effect on temporary differences not recognised	(36)	(116)
Tax effect of tax losses not recognised	572	913
Tax effect of PRC preferential tax allowance	(302)	(137)
Utilisation of tax losses previously not recognised	(700)	–
Tax charge for the year	1,418	88

At the balance sheet date, the Group has unused estimated tax losses of HK\$17.3 million (2006: HK\$17.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

13. DIVIDENDS

At a meeting held on 18 March 2008, the Directors recommend the declaration of a final dividend of HK\$0.008 per share for the year ended 31 December 2007. This proposed dividend is not included as a dividend payable in the consolidated balance sheet as at 31 December 2007.

14. EARNINGS (LOSS) PER SHARE

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

	The Group	
	2007	2006
Net profit (loss) attributable to shareholders for the purpose of basic and diluted earnings (loss) per share	<u>HK\$11,370,000</u>	<u>HK\$(3,469,000)</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	365,519,795	346,225,000
Effect of dilutive potential ordinary shares:		
Options and warrants	<u>6,139,691</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>371,659,486</u>	<u>N/A</u>

No diluted loss per share for the year ended 31 December 2006 is presented as the potential ordinary shares in respect of outstanding share options and warrants are anti-dilutive.

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15. PROPERTY, PLANT AND EQUIPMENT

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

FOR THE YEAR ENDED 31 DECEMBER 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Property under construction HK\$'000	Buildings improvement HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Office and laboratory equipment HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
The Group							
COST OR VALUATION							
At 1 January 2006	593	10,373	314	7,262	2,259	–	20,801
Transfer	(593)	593	–	–	–	–	–
Exchange rate adjustments	–	461	–	305	81	–	847
Additions	–	2,094	435	1,004	218	261	4,012
Disposals	–	–	(239)	(342)	(224)	–	(805)
At 31 December 2006	–	13,521	510	8,229	2,334	261	24,855
Comprising:							
At cost	–	–	510	8,229	2,334	261	11,334
At valuation	–	13,521	–	–	–	–	13,521
	–	13,521	510	8,229	2,334	261	24,855
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	–	2,611	203	4,286	1,895	–	8,995
Exchange rate adjustments	–	110	–	180	71	–	361
Charge for the year	–	696	74	819	143	17	1,749
Written off upon disposal	–	–	(205)	(308)	(221)	–	(734)
At 31 December 2006	–	3,417	72	4,977	1,888	17	10,371
NET BOOK VALUES							
At 31 December 2006	–	10,104	438	3,252	446	244	14,484

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\$6.55 million (2006: HK\$6.11 million).

The Group has pledged machinery with a net book value of approximately HK\$335,000 (2006: leasehold land and buildings and machinery of HK\$10.23 million) to secure general banking facilities granted to the Group.

FOR THE YEAR ENDED 31 DECEMBER 2007

16. INTANGIBLE ASSETS

	Development cost HK\$'000
<hr/>	
The Group	
COST	
At 1 January 2006	16,372
Exchange rate adjustments	452
Additions	682
	<hr/>
At 31 December 2006	17,506
Exchange rate adjustments	833
Additions	3,497
Disposal	(3,330)
	<hr/>
At 31 December 2007	<u>18,506</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2006	2,540
Exchange rate adjustments	107
Charge for the year	634
	<hr/>
At 31 December 2006	3,281
Exchange rate adjustments	229
Charge for the year	526
Written off	(3,330)
	<hr/>
At 31 December 2007	<u>706</u>
Net Book Values	
At 31 December 2007	<u>17,800</u>
At 31 December 2006	<u>14,225</u>

16. INTANGIBLE ASSETS *(continued)*Development cost
HK\$'000**The Company****COST**At 31 December 2007 and 31 December 2006 3,840

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

17. LEASE PREMIUM FOR LAND**The Group**

	2007 HK\$'000	2006 HK\$'000
Net book value at 1 January	1,191	1,170
Exchange rate adjustment	83	49
	1,274	1,219
Amortisation for the year	(31)	(28)
Net book value at 31 December	1,243	1,191
Current portion of non-current assets	(31)	(29)
Non-current portion	1,212	1,162

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

FOR THE YEAR ENDED 31 DECEMBER 2007

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 HK\$'000	2006 HK\$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	54,354	44,297
	<u>54,355</u>	<u>44,298</u>

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

Details of the Company's principal subsidiaries as at 31 December 2007 are set out as follows:

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held		Place of incorporation/ registration	Principal activities
		Direct	Indirect		
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

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held		Place of incorporation/ registration	Principal activities
		Direct	Indirect		
China Oncology Focus Limited (formerly known as Lee's Pharmaceutical (China) 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 Diagnostic International Limited was struck off in March 2007. No significant impact to the Group was resulted.

19. INVENTORIES

	The Group	
	2007 HK\$'000	2006 HK\$'000
At cost		
Raw materials	1,722	755
Work-in-progress	1,177	484
Finished goods	5,622	2,836
	<u>8,521</u>	<u>4,075</u>

Included above are raw materials which are carried at net realisable value of HK\$Nil (2006: Nil) at the balance sheet date.

FOR THE YEAR ENDED 31 DECEMBER 2007

20. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers.

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

	The Group	
	2007 HK\$'000	2006 HK\$'000
1-90 days	8,729	3,933
91-180 days	283	193
181-365 days	63	49
Over 365 days and under 3 years	75	47
	9,150	4,222
Less: Allowance for bad and doubtful debts	(107)	(61)
	9,043	4,161

21. TRADE PAYABLES

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

	The Group	
	2007 HK\$'000	2006 HK\$'000
1-90 days	5,809	666
91-180 days	–	–
181-365 days	–	–
Over 365 days	–	–
	5,809	666

FOR THE YEAR ENDED 31 DECEMBER 2007

22. BANK OVERDRAFT AND BORROWINGS

	The Group	
	2007 HK\$'000	2006 HK\$'000
Secured		
– Overdraft	–	819
– Bank loans	4,678	8,894
– Other loans	–	2,000
	<u>4,678</u>	<u>11,713</u>

The borrowings are secured by the Group's owned machinery.

	The Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount of the borrowings are repayable:		
Within one year	4,228	11,145
More than one year but not exceeding two years	450	568
	<u>4,678</u>	<u>11,713</u>

23. SHARE CAPITAL

	Number of ordinary shares of HK\$0.05 each		Amount	
	2007	2006	2007 HK\$'000	2006 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	346,225,000	346,225,000	17,311	17,311
Exercise of share options	1,050,000	–	53	–
Issue of new shares upon exercise of warrants	65,850,000	–	3,292	–
At end of the year	<u>413,125,000</u>	<u>346,225,000</u>	<u>20,656</u>	<u>17,311</u>

FOR THE YEAR ENDED 31 DECEMBER 2007

24. 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 2007	32,496	9,200	666	(11,684)	30,678
Employee share option benefits	–	–	226	–	226
Exercise of share options	203	–	(41)	–	162
Issue of new shares upon exercise of warrants	11,455	–	–	–	11,455
Net profit for the year	–	–	–	3,682	3,682
At 31 December 2007	<u>44,154</u>	<u>9,200</u>	<u>851</u>	<u>(8,002)</u>	<u>46,203</u>
At 1 January 2006	32,496	9,200	443	(10,474)	31,665
Employee share option benefits	–	–	223	–	223
Net loss for the year	–	–	–	(1,210)	(1,210)
At 31 December 2006	<u>32,496</u>	<u>9,200</u>	<u>666</u>	<u>(11,684)</u>	<u>30,678</u>

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 36.

The Company's reserves available for distribution to shareholders as at 31 December 2007 was HK\$46.20 million (2006: HK\$30.68 million).

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

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

25. COMMITMENTS

	The Group	
	2007 HK\$'000	2006 HK\$'000
(a) Capital commitments in respect of acquisition of property, plant and equipment	–	276
	–	276
	2007 HK\$'000	2006 HK\$'000
(b) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	1,059	945
In more than one year but not exceeding five years	476	1,044
	1,535	1,989
	1,535	1,989

26. 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 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,379,000 (2006: 17,529,000) representing 3.96% (2006: 5.06%) 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.

FOR THE YEAR ENDED 31 DECEMBER 2007

26. SHARE OPTIONS SCHEME (continued)

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

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

Date of grant	Outstanding at 01.01.2007	Granted/exercised/ cancelled/lapsed during the year	Outstanding at 31.12.2007	Exercise period	Exercise price per share
<i>Category I: Directors</i>					
26.06.2002	1,600,000	–	1,600,000	26.06.2004-25.06.2012	HK\$0.280
<i>Category II: Employees</i>					
26.06.2002	50,000	–	50,000	26.06.2004-25.06.2012	HK\$0.280
	<u>1,650,000</u>	<u>–</u>	<u>1,650,000</u>		

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

Date of grant	Outstanding at 01.01.2007	Granted	During the year Exercised	Lapsed	Outstanding at 31.12.2007	Exercise period	Exercise price per share
<i>Category I: Directors</i>							
13.01.2003	3,279,000	–	(100,000)	–	3,179,000	13.07.2003-12.01.2013	HK\$0.405
25.06.2004	300,000	–	(300,000)	–	–	25.12.2004-24.06.2014	HK\$0.218
11.07.2005	1,200,000	–	(100,000)	–	1,100,000	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
<i>Category II: Employees</i>							
13.01.2003	400,000	–	–	–	400,000	13.07.2003-12.01.2013	HK\$0.405
25.06.2004	5,950,000	–	(200,000)	(100,000)	5,650,000	25.12.2004-24.06.2014	HK\$0.218
11.07.2005	3,750,000	–	(350,000)	–	3,400,000	11.01.2006-10.07.2015	HK\$0.159
<i>Category III: Consultant</i>							
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK\$0.175
	<u>15,879,000</u>	<u>–</u>	<u>(1,050,000)</u>	<u>(100,000)</u>	<u>14,729,000</u>		

26. SHARE OPTIONS SCHEME *(continued)*

Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK\$
26.06.2002	(i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	0.280
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218
11.07.2005	(iii) 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 (iv) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(v) 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 (vi) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175

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26. SHARE OPTIONS SCHEME (continued)

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

	Outstanding at 01.01.2007	Granted	During the year Exercised	Lapsed	Outstanding at 31.12.2007
<i>Directors</i>					
Lee Siu Fong	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	289,000	–	–	–	289,000
Li Xiaoyi	2,890,000	–	–	–	2,890,000
Chan Yau Ching, Bob	500,000	–	(500,000)	–	–
Lam Yat Cheong	300,000	–	–	–	300,000
Tsim Wah Keing, Karl	300,000	–	–	–	300,000
Mauro Bove	1,000,000	–	–	–	1,000,000
<i>Directors' total</i>	6,879,000	–	(500,000)	–	6,379,000
<i>Consultant</i>	500,000	–	–	–	500,000
<i>Employees</i>	10,150,000	–	(550,000)	(100,000)	9,500,000
<i>Grand total</i>	17,529,000	–	(1,050,000)	(100,000)	16,379,000

27. PLEDGED OF ASSETS

At the balance sheet date, the Group has pledged machinery with a net book value of approximately HK\$335,000 (2006: leasehold land and buildings and machinery of HK\$10.23 million), and fixed deposits of HK\$2.01 million (2006: HK\$2.01 million) to banks and other institutions to secure general banking facilities granted to the Group.

28. 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	Notes	Nature of transactions	2007 HK\$'000	2006 HK\$'000
Sigma-Tau Group	(a)	Purchase of pharmaceutical product	18,897	8,880

Notes:

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

29. 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 (monthly cap of HK\$1,000 for each employee), which contribution is matched by employees.

The total cost charged to income of HK\$115,465 (2006 HK\$121,703) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2007, contributions of HK\$22,000 (2006: HK\$23,273) due in respect of the reporting period had not been paid over to the schemes.

30. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the consolidated financial statements were as follows:

	2007 HK\$	2006 HK\$
Letter of credit	2,269,000	–

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

RESULTS

	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	(Restated) 2004 HK\$'000	(Restated) 2003 HK\$'000
Turnover	76,712	43,531	38,528	30,395	18,498
Cost of sales	(25,719)	(16,860)	(13,216)	(10,381)	(5,134)
Gross profit	50,993	26,671	25,312	20,014	13,364
Other revenue	973	922	1,770	623	714
Selling and distribution expenses	(22,597)	(14,420)	(14,614)	(13,207)	(6,850)
Research and development expenses	(1,499)	(1,113)	(878)	(571)	(679)
Administrative expenses	(14,192)	(14,737)	(11,035)	(9,723)	(11,447)
Profit (loss) from operations	13,678	(2,677)	555	(2,864)	(4,898)
Finance costs	(890)	(704)	(446)	(565)	(593)
Profit (loss) before taxation	12,788	(3,381)	109	(3,429)	(5,491)
Taxation	(1,418)	(88)	44	36	51
Profit (loss) attributable to shareholders	11,370	(3,469)	153	(3,393)	(5,440)

ASSETS AND LIABILITIES

	31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	(Restated) 2004 HK\$'000	(Restated) 2003 HK\$'000
Non-current assets	38,165	33,771	30,680	24,782	24,900
Current assets	48,433	18,849	16,162	23,259	18,307
Current liabilities	(24,252)	(18,264)	(10,562)	(11,666)	(10,696)
Net current assets	24,181	585	5,600	11,593	7,611
Non-current liabilities	(1,521)	(1,167)	(620)	(648)	(4,648)
Net assets	60,825	33,189	35,660	35,727	27,863

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited ("the Company") will be held at Unit 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, Hong Kong on Wednesday, 30 April 2008 at 3:30 p.m. for the following purposes:

As ordinary business:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2007.
2. To declare the final dividend.
3. To re-elect the retiring directors and to authorize the board of directors (the "Board") to fix the directors' remuneration.
4. To re-appoint auditors and to authorize the Board to fix their remuneration.

As special business:

5. To consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:—
 - A. **"THAT**
 - (a) subject to paragraph 5A(b) below, a general mandate be and is hereby generally and unconditionally approved to the directors of the Company (the "Directors") to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;

- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph 5A(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:—
- (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, or in any territory applicable to the Company); or
 - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the Articles of Association of the Company;
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or

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

B. “THAT

- (a) subject to paragraph 5B(b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own shares on the Growth Enterprise Market (“GEM”) of the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed (as amended from time to time), be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph 5B(a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph 5B(a) shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or

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

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

Hong Kong, 18 March 2008

Notes:

- (1) The Register of members will be closed from Friday, 25 April 2008 to Wednesday, 30 April 2008 (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 24 April 2008.
- (2) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (3) A form of proxy for use at the above meeting is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.
- (4) A circular containing further details regarding items 3 and 5 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to shareholders together with 2007 Annual Report.