



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:950)

A detailed illustration of a pond with lotus flowers and seed pods. The background is a soft, light blue gradient with bokeh effects. In the center, a large pink and white lotus flower is in full bloom. Below it, several green lotus seed pods (receptacles) are visible, some with small holes. The foreground is filled with green lily pads and several smaller white lotus flowers. In the upper right, a few black ants are shown in silhouette, crawling on a surface.

Interim Report 2010

BUSINESS REVIEW AND PROSPECTS

Business Review

The second quarter of 2010 has been very eventful for the Group when it witnessed not only the successful transfer of listing of the Group from Growth Enterprise Market to the Main Board of Hong Kong Stock Exchange, but also the launch of three new products in China market. In addition, the Group had continued to deliver outstanding performance in sales and profit growth in the quarter.

The respective turnover of HK\$60,678,000 and net profit of HK\$15,571,000 for the second quarter of 2010 represented sequential increment of 36% and 45% respectively over the first quarter of 2010. Turnover for the first six months of 2010 increased 37% over same period last year to HK\$105,287,000. The increase in turnover was the result of fast organic growth of the existing products. Sales of Iron Proteinsuccinylate Oral Solution, *Carnitene*[®], *Livaracine*[®] and *Slounase*[®] achieved growth of 81%, 36%, 35.6% and 28% respectively for first half year compared with same period last year.

Net profit attributable to shareholders also grew 31% for the first six months of 2010 to HK\$26,280,000 over the same period last year. The slower pace of profit growth is somewhat expected as the Group made substantial investment in sales and marketing infrastructure in preparation of new product launch. This is evidenced by the net increase of HK\$4 million in administrative expenses compared with same period last year. The one-off expenses in relation to transferring from GEM to the main board also contributed to the increase.

In order to maintain the growth momentum, the Group has stepped up its effort in research and development for new products in which investment increased by HK\$1.3 million for first half year over corresponding period in previous year. The phase I study for *Declotana*[®] has progressed well and the product has continued to show excellent safety profile. It is expected that phase I study be completed in third quarter and phase II be initiated in the fourth quarter of 2010. A phase III study for *Carnitene*[®] on heart failure has also been kicked off during period under review. The study is a randomized, multi-centers and placebo-controlled trial and its successful conclusion could further expand *Carnitene*[®]'s clinical applications. During the second quarter, a couple of milestones had also been reached for the Group's clinical development as its *Dromos*[®] PLC study reached the targeted enrollment number and the *Hyalofemme*[®] study was successfully completed. Those achievements will pave way for the products eventual registration in China.

The Group had also made significant headway in international partnership during the second quarter of 2010. Starting the 1st of June, the Group has formally become the exclusive distributor of *Zanidip*[®], the latest calcium channel blocker discovered and developed by Recordati, an Italian pharmaceutical company listed on the Milan Exchange. Calcium channel blocker is the first line treatment for mild and moderate hypertension and is the most prescribed class of anti-hypertensive drugs in China with market size over 2.0 billion RMB. With its excellent efficacy and safety profile, *Zanidip*[®] has been the second most successful calcium channel blocker in rest of the world and possesses great market potential in China.

On May 28, the Group entered into agreement with United Therapeutics, an US pharmaceutical company listed on the New York Stock Exchange. The Group will market *Remodulin*[®] for treatment of pulmonary hypertension in China under exclusive license. *Remodulin*[®] is a prostacyclin analogue approved by FDA and over 50 other countries for pulmonary hypertension. The improvement in diagnostic means and increasing awareness among physician has seen a drastic increase in prevalence of pulmonary hypertension in China. The introduction of *Remodulin*[®] in China could fulfill significant unmet medical need for pulmonary hypertension patients. The acquisition of these two products has appreciably strengthened the cardiovascular franchise of the Group. With five products either in the market or under development in China spanning from ischemic heart diseases to pulmonary hypertension, the Group is well vested to become an important player in the cardiovascular arena in China.

The stellar performance of the Group in the past years has been recognized by the investment community in Asia. In May 2010, a leading financial magazine, FinanceAsia announced that the Group won the 2010 Best Small-Cap Company in China (Ranked 2nd). This is the result of annual poll made by FinanceAsia from more than 300 investors and analyst across the region. The Group will take the honor as motivation to deliver better return for its shareholders in the future.

Last, but not least, the Group has successfully transferred its listing from Growth Enterprise Market to the Main Board of Hong Kong Stock Exchange on May 14, 2010. The successful transfer of the listing signifies that the Group has entered into a new development stage, enhancing greatly the profile of the Group.

Prospects

In light of new national reimbursement list for pharmaceuticals coming into effect in the second half of 2010, The Group expects to see a positive impact on the sales of *Carnitene*[®], *Slounase*[®] and *Eyprotor*[®]. Those three products were entrants of the new national reimbursement list for pharmaceuticals, resulting in the expansion of the Group's reimbursed items from two to five which have contributed to 83% of the Group's revenue in the first half of 2010.

The launched *Zanidip*[®], *Defnegin*[®] and *Veloderm*[®] in the second quarter this year also lays a solid foundation for sustainable growth in the years to come. Among them, *Zanidip*[®] is bestowed with the best potential as it targets a 2.0 billion market with nearly 20% growth rate. The Group has been building aggressively a specialized organization to capitalize the opportunity and the earlier result and response have been encouraging.

The Group expects to make submissions for registration of several new products during the second half of years. New approval is also expected and new partnership may be consummate in the next quarter or two. All the efforts will result in the further augmentation of the Group's product portfolio and boost the Group's competitiveness in the market place.

The board of directors is confident that the Group will remain on track for its rapid growth and will continue to deliver satisfactory return to its shareholders in the future.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2010, the Group had cash and bank balances and pledged bank deposits of approximately HK\$63.48 million (31 December 2009: HK\$62.49 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 3.58 times (31 December 2009: 2.34 times).

As at 30 June 2010, the Group had bank and other borrowings of approximately HK\$19 million and shareholders' funds of approximately HK\$165 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund was nil as at 30 June 2010 and 31 December 2009.

Charges on Group Assets

Details of charges on group assets are included in note 18 to the condensed consolidated interim financial statements.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs mainly 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.

Employee Information

As at 30 June 2010, the Group employed a total of 329 employees (31 December 2009: 287 employees) with a total staff cost for the six months ended 30 June 2010 of approximately HK\$16.9 million (including directors' remuneration).

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.

Contingent Liabilities

As at 30 June 2010, the Group had no contingent liabilities.

REVIEW REPORT

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

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**TO THE BOARD OF DIRECTORS OF
LEE'S PHARMACEUTICAL HOLDINGS LIMITED**
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 6 to 25.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of The Stock Exchange of Hong Kong Limited require the preparation of quarterly financial report to be in compliance with Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKAS"). The quarterly financial report is the responsibility of, and has been approved by the directors.

Review work performed

We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKSRE 2410"). A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the three months and six months ended 30 June 2010.



HLM & Co.
Certified Public Accountants

Hong Kong, 19 August 2010

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	(2)	60,678	43,578	105,287	76,613
Cost of sales		(17,815)	(11,735)	(29,936)	(21,168)
Gross profit		42,863	31,843	75,351	55,445
Other revenue		1,306	(9)	2,317	379
Gain on deemed disposal of a subsidiary	(4)	–	–	234	–
Selling and distribution expenses		(16,197)	(12,059)	(29,085)	(22,087)
Research and development expenses		(1,572)	(1,048)	(2,993)	(1,649)
Administrative expenses		(7,532)	(4,969)	(13,789)	(9,704)
Profit from operations	(6)	18,868	13,758	32,035	22,384
Finance costs		(304)	(173)	(521)	(225)
Share of results of an associate	(5)	(235)	–	(463)	–
Profit before taxation		18,329	13,585	31,051	22,159
Taxation	(7)	(2,758)	(1,301)	(4,771)	(2,073)
Profit attributable to shareholders		15,571	12,284	26,280	20,086
Dividends	(8)	4,508	3,325	4,508	3,325
		HK cents	HK cents	HK cents	HK cents
Earnings per share					
Basic	(9)	3.46	2.96	5.83	4.84
Diluted	(9)	3.35	2.91	5.67	4.76

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

	For the six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit attributable to shareholders	26,280	20,086
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiary	664	347
– revaluation of overseas buildings	33	33
Other comprehensive income attributable to shareholders, net of tax	697	380
Total comprehensive income attributable to shareholders	26,977	20,466

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 June 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000
	<i>Notes</i>		
Non-current Assets			
Property, plant and equipment	(10)	24,696	25,085
Intangible assets		51,566	59,305
Lease premium for land		1,220	1,225
Goodwill		3,900	3,900
Interest in an associate	(11)	3,376	–
		84,758	89,515
Current Assets			
Lease premium for land		33	33
Inventories		29,108	26,814
Trade receivables	(12)	18,215	13,392
Other receivables, deposits and prepayments		20,974	16,318
Pledged bank deposits		2,012	2,012
Time deposits		10,920	–
Cash and bank balances		50,549	60,482
		131,811	119,051
Current Liabilities			
Trade payables	(13)	2,053	1,642
Bills payable		1,362	–
Other payables		19,708	39,434
Short term borrowings	(14)	12,126	8,355
Obligation under finance lease		134	129
Tax payable		1,407	1,299
		36,790	50,859
Net Current Assets		95,021	68,192
Total Assets less Current Liabilities		179,779	157,707
Capital and Reserves			
Share capital	(15)	22,542	22,506
Reserves		142,548	122,224
Equity Attributable to Shareholders of the Company		165,090	144,730
Non-current Liabilities			
Deferred tax liabilities		7,317	4,161
Long-term borrowings	(14)	6,940	8,316
Obligation under finance lease		432	500
		14,689	12,977
		179,779	157,707

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Net cash from operating activities	26,326	12,652
Net cash used in investing activities	(20,876)	(10,876)
Net cash (used in) from financing activities	(4,728)	3,387
Increase in cash and cash equivalents	722	5,163
Cash and cash equivalents at beginning of the period	60,482	22,182
Effect of foreign exchange rate changes	265	85
Cash and cash equivalents at end of the period	61,469	27,430
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	50,549	27,430
Time deposits	10,920	–
	61,469	27,430

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other comprehensive income		Retained profits	Total
					Revaluation reserve	Exchange reserve		
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
At 1 January 2010	22,506	63,491	9,200	1,190	3,689	2,950	41,704	144,730
Share option benefits	-	-	-	390	-	-	-	390
Exercise of share options	36	237	-	(71)	-	-	-	202
Total comprehensive income attributable to shareholders	-	-	-	-	33	664	26,280	26,977
2009 final dividend paid	-	-	-	-	-	-	(7,209)	(7,209)
At 30 June 2010	22,542	63,728	9,200	1,509	3,722	3,614	60,775	165,090
At 1 January 2009	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335
Share option benefits	-	-	-	158	-	-	-	158
Exercise of share options	15	66	-	(19)	-	-	-	62
Total comprehensive income attributable to shareholders	-	-	-	-	33	347	20,086	20,466
2008 final dividend paid	-	-	-	-	-	-	(4,568)	(4,568)
At 30 June 2009	20,779	44,599	9,200	1,227	3,690	2,951	19,007	101,453

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation of financial statements and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Listing Rules. They have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings.

The accounting policies and method of computation used in preparing the unaudited consolidated interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2009 except as described below.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter for the post-acquisition changes in the Group’s share of net assets of the associates, less any impairment in the value of individual investments. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are provided only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfers of Assets from Customers

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

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Company has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

HKAS 24 (Revised)	Related Party Disclosures ³
HKAS 32 (Amendment)	Classification of Rights Issues ¹
HKFRS 9	Financial Instruments ⁴
HK(IFRIC) – Int14 (Amendment)	Prepayments of a Minimum Funding Requirement ³
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Company's financial assets.

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

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

2. Turnover

The principal activities of the Group are development, manufacturing and sales of pharmaceutical products. During the period, turnover represents the net amount received and receivable for goods sold by the Group to outside customers.

3. Segment information

Business segments

The following table presents turnover and results of the Group's business segments for the six months ended 30 June 2010.

	Proprietary products		License-in products		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Segment turnover	61,047	46,146	44,240	30,467	105,287	76,613
Segment results	22,042	15,991	13,793	8,731	35,835	24,722
Interest income					81	28
Gain on deemed disposal of a subsidiary					234	–
Unallocated expenses					(4,115)	(2,366)
Profit from operations					32,035	22,384
Finance costs					(521)	(225)
Share of results of an associate					(463)	–
Profit before taxation					31,051	22,159
Taxation					(4,771)	(2,073)
Profit attributable to shareholders					26,280	20,086

Geographical segments

During the six months ended 30 June 2010 and 2009, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

4. Gain on deemed disposal of a subsidiary

	(Unaudited) For the three months ended 30 June 2010 <i>HKS'000</i>	(Unaudited) For the six months ended 30 June 2010 <i>HKS'000</i>
Fair value of investment retained (25.36%)	–	3,839
Carrying amount of the 100% investment on the date of loss of control	–	(3,605)
Gain recognised	–	234

In January 2010, Powder Pharmaceuticals Incorporated (the “Powder”) has issued 49,999 ordinary shares, which triggered a deemed disposal of the equity interest held by the Group. Accordingly, the equity interest in Powder held by the Group was diluted from 100% to 25.36% after the issue of the shares. Powder then became an associate of the Group.

5. Share of results of an associate

	(Unaudited) For the three months ended 30 June 2010 <i>HKS'000</i>	(Unaudited) For the six months ended 30 June 2010 <i>HKS'000</i>
Total loss for the period	926	1,824
Group's share of loss of an associate	235	463

6. Profit from operations

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	1,500	1,072	2,955	1,957
Amortisation of lease premium for land	8	9	16	17
Amortisation of intangible assets	387	293	636	503
Total depreciation and amortisation	1,895	1,374	3,607	2,477
(Written back) allowance for bad and doubtful debts	(3)	(25)	54	(41)

7. Taxation

	(Unaudited)		(Unaudited)	
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2010	2009	2010	2009
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
Current tax				
PRC Enterprise Income Tax	1,181	1,140	1,650	1,785
Overprovision in prior year	(14)	–	(14)	–
	1,167	1,140	1,636	1,785
Deferred tax				
Provision of current period	1,591	161	3,135	288
Taxation attributable to the Group	2,758	1,301	4,771	2,073

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

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

8. Dividends

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interim dividend declared of HK\$0.01 (2009: HK\$0.008) per ordinary share based on issued share capital as at the end of reporting period	4,508	3,325	4,508	3,325

Interim dividend will be payable on 29 September 2010 to shareholders registered in the Company's Register of Members as at the close of business on 10 September 2010. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed statement of financial position. The actual interim dividend distributed in 2009 was HK\$3,586,000 due to additional shares issued after 30 June 2009.

2009 final dividend of HK\$0.016 per share, totalling HK\$7,209,319 was paid in May 2010.

9. Earnings per share

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

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2010	2009	2010	2009
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK\$15,571,000	HK\$12,284,000	HK\$26,280,000	HK\$20,086,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	450,658,262	415,351,244	450,477,023	415,313,122
Effect of dilutive potential ordinary shares: options	13,856,427	7,064,861	12,955,013	6,537,986
Weighted average number of ordinary shares for the purpose of diluted earnings per share	464,514,689	422,416,105	463,432,036	421,851,108

10. Movements in property, plant and equipment

During the period ended 30 June 2010, additions to property, plant and equipment amounted to HK\$2.68 million.

11. Interest in an associate

Details of the Group interest in an associate are as follows:

	(Unaudited) 30 June 2010 <i>HK\$'000</i>	(Audited) 31 December 2009 <i>HK\$'000</i>
Cost of investments in an associate		
Unlisted	3,839	–
Share of post-acquisition losses and other comprehensive income, net of dividend received	(463)	–
	3,376	–

12. Trade receivables

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers. The fair value of the Group's trade receivables at 30 June 2010 approximate to the corresponding carrying amount.

The following is an aging analysis of trade receivables at the end of the reporting periods.

	(Unaudited) 30 June 2010 <i>HK\$'000</i>	(Audited) 31 December 2009 <i>HK\$'000</i>
0-90 days	17,444	12,882
91-180 days	542	284
181-365 days	458	453
Over 365 days and under 3 years	267	214
	18,711	13,833
Less: Allowance for bad and doubtful debts	(496)	(441)
	18,215	13,392

13. Trade payables

The fair value of the Group's trade payables as at 30 June 2010 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at the end of the reporting periods.

	(Unaudited)	(Audited)
	30 June	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	2,023	1,634
91-180 days	30	–
181-365 days	–	8
Over 365 days	–	–
	2,053	1,642

14. Borrowings

	(Unaudited)	(Audited)
	30 June	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans	9,408	5,700
Unsecured bank loans	9,658	10,971
	19,066	16,671
Carrying amount of the borrowings are repayable:		
Within one year	12,126	8,355
More than one year but not exceeding two years	2,667	2,784
More than two years but not more than five years	4,273	5,532
	19,066	16,671



The carrying amounts of bank borrowings are denominated in the following currencies:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Renminbi	9,200	5,700
Hong Kong dollars	9,658	10,971
European Union euro	208	–
	<hr/> 19,066 <hr/>	<hr/> 16,671 <hr/>

The effective interest rates of the Group range from 4% to 6% per annum.

The borrowings are secured by the Group's leasehold land and buildings and time deposits.

The carrying amounts of short-term bank borrowings approximate to their fair values.

15. Share capital

	Number of ordinary shares of HK\$0.05 each	Amount <i>HK\$'000</i>
Authorised:		
At 30 June 2010 and 31 December 2009	1,000,000,000	50,000

Issued and fully paid:

	Number of ordinary shares of HK\$0.05 each		Amount	
	Six months ended 30 June 2010 (Unaudited)	Year ended 31 December 2009 (Audited)	Six months ended 30 June 2010 (Unaudited) <i>HK\$'000</i>	Year ended 31 December 2009 (Audited) <i>HK\$'000</i>
At beginning of the period	450,112,437	415,275,000	22,506	20,764
Exercise of share options	720,000	4,564,000	36	228
Issue of new shares under subscription agreement	–	30,273,437	–	1,514
At end of the period	450,832,437	450,112,437	22,542	22,506

16. Related party transactions

During the period, 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:

(a) Related party transactions

Name of related parties	Note	Nature of transactions	(Unaudited)	
			For the six months ended 30 June	
			2010	2009
			HK\$'000	HK\$'000
Sigma-Tau Group	(1)	Purchase of pharmaceutical product	4,250	21,834

Note:

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

(b) Compensation of directors of the Group

	(Unaudited)	
	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Short-term employee benefits	2,641	2,158
Post-employment benefits	18	18
Share-based payments	88	50
	2,747	2,226

17. Capital commitments

	(Unaudited)	(Audited)
	30 June	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of:		
Intangible assets – license fee	33,239	–
Property, plant and equipment	2,099	730
	35,338	730

18. Pledged of assets

As at 30 June 2010, the Group has pledged leasehold land and buildings with an aggregate amount of HK\$8.9 million (31 December 2009: HK\$9,284,721) and pledged bank deposit of HK\$2,012,000 (31 December 2009: HK\$2,012,000) to secure general banking facilities granted to the Group.

In addition, the Group's obligations under finance leases are secured by the lessors' title to the motor vehicle, which have a carrying amount of HK\$705,078 (31 December 2009: HK\$745,755).

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 period ended 30 June 2010 were as follows:

Grantees	Date of Grant	Number of share options				Outstanding at 30.6.2010
		Outstanding at 1.1.2010	Granted	Exercised	Lapsed	
Directors						
Lee Siu Fong	25.09.2009	448,000	–	–	–	448,000
Leelalertsuphakun Wanee	27.08.2009	448,057	–	–	–	448,057
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
	25.09.2009	448,000	–	–	–	448,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
Lam Yat Cheong	11.07.2005	300,000	–	–	–	300,000
Sub-total of Directors		5,534,057	–	–	–	5,534,057
Employees						
	13.01.2003	300,000	–	(150,000)	–	150,000
	25.06.2004	2,690,000	–	(450,000)	–	2,240,000
	11.07.2005	2,350,000	–	–	–	2,350,000
	02.01.2008	820,000	–	(120,000)	–	700,000
	12.01.2010	–	4,210,000	–	–	4,210,000
Consultants	02.06.2006	500,000	–	–	–	500,000
	02.01.2008	2,000,000	–	–	–	2,000,000
	26.11.2008	500,000	–	–	–	500,000
Sub-total of employees and consultants		9,160,000	4,210,000	(720,000)	–	12,650,000
Grand total		14,694,057	4,210,000	(720,000)	–	18,184,057

Notes:

1. Particulars of share options:

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

Date of Grant	Exercise period	Exercise price per share HK\$
26.11.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009 – 25.11.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010 – 25.11.2018	0.383
27.08.2009	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 27.02.2010 – 26.08.2019 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 27.11.2010 – 26.08.2019	1.03
25.09.2009	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.03.2010 – 24.09.2019 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.12.2010 – 24.09.2019	1.076
12.01.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010 – 11.01.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011 – 11.01.2020	2.20

Save as disclosed above, as at 30 June 2010, 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 30 June 2010, 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		% of issued share capital
			Shares	Total	
Lee Siu Fong	Beneficial owner		2,504,375		
	Interest of corporation	(i)	124,690,625	127,195,000	28.21
Leelertsuphakun Wanee	Beneficial owner		1,009,000		
	Interest of corporation	(i)	124,690,625	125,699,625	27.88
Li Xiaoyi	Beneficial owner		35,110,000		
	Interest of spouse	(ii)	16,000,000	51,110,000	11.34
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.26
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.07

Notes:

- (i) 124,690,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelertsuphakun Wanee.
- (ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) *Share options*

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	448,000	448,000
Leelalertsuphakun Wanee	Beneficial owner	448,057	448,057
Li Xiaoyi	Beneficial owner	3,338,000	3,338,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
		5,534,057	5,534,057

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	127,195,000	448,000	127,643,000
Leelalertsuphakun Wanee	125,699,625	448,057	126,147,682
Li Xiaoyi	51,110,000	3,338,000	54,448,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung, Karl	300,000	–	300,000
Mauro Bove	–	1,000,000	1,000,000
Lam Yat Cheong	–	300,000	300,000

As at 30 June 2010, Dr. Li Xiaoyi also had beneficial interest in 1,000 shares in Powder Pharmaceuticals Incorporated, an associated corporation of the Company.

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.

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 period ended 30 June 2010 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 30 June 2010, the following persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

1. Long positions

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

Name	Capacity and nature	Notes	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		120,290,625	26.68
Defiante Farmaceutica, S.A.	Beneficial owner		132,350,000	29.36
Life Science Intelligence Limited	Beneficial owner	(i)	22,773,437	5.05
High Knowledge Investments Limited	Beneficial owner	(ii)	16,000,000	3.55
Lue Shuk Ping, Vicky	Interest in corporation	(ii)	16,000,000	3.55
	Interest of spouse	(iii)	35,110,000	7.79

(b) Underlying Shares

Name	Capacity and nature	Note	Nature of underlying Shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(iii)	Share Options	3,338,000

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	120,290,625	–	120,290,625
Defiante Farmaceutica, S.A.	132,350,000	–	132,350,000
Life Science Intelligence Limited	22,773,437	–	22,773,437
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,110,000	3,338,000	54,448,000

Notes:

- (i) Life Science Intelligence Limited is controlled by Vivo Ventures Fund VI, LP.
- (ii) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (iii) 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 30 June 2010, 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.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Main Board Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months period ended 30 June 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 8 September 2010 to Friday, 10 September 2010 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1726, 17th Floor Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 7 September 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company listed securities during the six months ended 30 June 2010.

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 Main Board Listing Rules, or has any other conflict of interests with the Group during the six months ended 30 June 2010.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The interim results for the six months ended 30 June 2010 are unaudited, but have been reviewed by auditors in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

An audit committee was set up with written terms of reference in compliance with Rules 3.21 of the Main Board 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, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

The audit committee has reviewed with the management and auditors this unaudited interim report for the six months ended 30 June 2010 before recommending it to the Board for approval.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of Main Board Listing Rules throughout the six months ended 30 June 2010, 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.

As at the date of this report, the Board comprises the following directors:

Executive directors:

Ms. Lee Siu Fong (*Chairman*)
Ms. Leelalertsuphakun Wanee
Dr. Li Xiaoyi

Non-executive director:

Mr. Mauro Bove

Independent non-executive directors:

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

By order of the Board
Lee Siu Fong
Chairman

Hong Kong, 19 August 2010