LEE'S PHARM.
李氏大藥廠

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

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 950)

Annual Report 2010

* For identification purpose only 僅供識別

CONTENTS

CORPORATE INFORMATION

STOCK CODE
950

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

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER
Miss Luen Yee Ha, Susanne

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

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

COMPANY WEBSITE
www.leespharm.com

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

AUTHORIZED REPRESENTATIVE
Ms. Lee Siu Fong
Dr. Li Xiaoyi

AUDITORS
HLM & Co., Certified Public Accountants

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

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

CORPORATE PROFILE

Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a research-driven and market-oriented biopharmaceutical group focused on the market of the People's Republic of China (the "PRC" or "China"). Through its wholly owned subsidiary in the PRC, Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. The Group has over 16 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 nine products in China. The Group focuses on many different areas such as cardiovascular and infectious diseases, dermatology, oncology, gynecology and others with more than 30 products under different development stages stemming from both internal R&D as well as from the recent acquisition of licensing and distribution rights from various US and European companies. The mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

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

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

	Country of origin	Market		Medical application
		PRC	Hong Kong	
Proprietary products:				
*Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		Viral-infected disease
*Slounase®	PRC	✓		Shortening bleeding time & reducing loss of blood
*Eyprotor®	PRC	✓		Cornea ulcer
License-in products:				
*Carnitene®	Italy	✓		Cardiac disease
Ferplex® (Iron Proteinsuccinylate Oral Solution)	Spain	✓		Sideropenic Anaemias
*Zanidip®	Italy	✓	✓	Hypertension
Aloxi®	France		✓	Prevention of nausea and vomiting associated with emetogenic cancer chemotherapy
Dafnegin®	Italy	✓		Candidiasis
Veloderm®	Italy	✓		Burns and wounds healing
Gelclair®	Italy		✓	Mucositis induced by chemo & radiotherapy

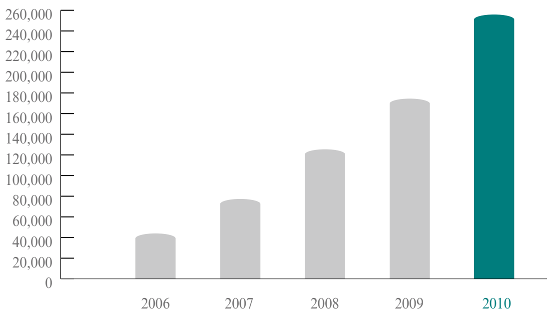
* *In the National Drug Reimbursement List of the PRC*

FINANCIAL HIGHLIGHTS

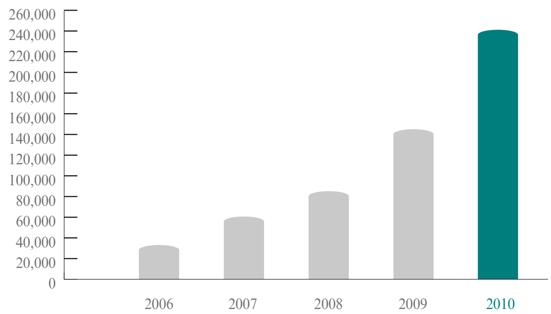
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**255,810**	173,837	125,421	76,712	43,531
Profit (loss) attributable to shareholders	**58,026**	46,369	28,060	11,370	(3,469)
Shareholders' funds	**241,064**	144,730	85,335	60,825	33,189
	HK cents	HK cents	HK cents	HK cents	HK cents
Basic earnings (loss) per share	**12.8**	10.85	6.77	3.11	(1.00)
Interim dividend per share	**1.0**	0.8	0.5	–	–
Final dividend per share	**2.0**	1.6	1.1	0.8	–
	3.0	2.4	1.6	0.8	–
Dividend payout ratio	**23.4%**	22.1%	23.6%	25.7%	

TURNOVER OF THE GROUP (HK$'000)



SHAREHOLDERS' FUNDS (HK$'000)



FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Turnover	255,810	173,837	125,421	76,712	43,531
Cost of sales	(77,320)	(49,262)	(36,779)	(25,719)	(16,860)
Gross profit	178,490	124,575	88,642	50,993	26,671
Other revenue	5,770	4,911	1,482	973	922
Selling and distribution expenses	(79,193)	(47,842)	(36,983)	(22,597)	(14,420)
Research and development expenses	(5,590)	(5,686)	(2,101)	(1,499)	(1,113)
Administrative expenses	(29,299)	(22,486)	(19,954)	(14,192)	(14,737)
Profit (loss) from operations	70,178	53,472	31,086	13,678	(2,677)
Share of results of associates	(1,159)	–	–	–	–
Finance costs	(1,058)	(689)	(505)	(890)	(704)
Profit (loss) before taxation	67,961	52,783	30,581	12,788	(3,381)
Taxation	(10,039)	(6,414)	(2,521)	(1,418)	(88)
Profit (loss) for the year	57,922	46,369	28,060	11,370	(3,469)
Attributable to:					
Shareholders of the Company	58,026	46,369	28,060	11,370	(3,469)
Non-controlling interests	(104)	–	–	–	–
	57,922	46,369	28,060	11,370	(3,469)

FINANCIAL POSITION

	31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Non-current assets	105,343	89,515	51,236	38,165	33,771
Current assets	206,370	119,051	56,674	48,433	18,849
Current liabilities	(61,021)	(59,175)	(20,768)	(24,252)	(18,264)
Net current assets	145,349	59,876	35,906	24,181	585
Non-current liabilities	(9,344)	(4,661)	(1,807)	(1,521)	(1,167)
Net assets	241,348	144,730	85,335	60,825	33,189
Equity attributable to shareholders of the Company	241,064	144,730	85,335	60,825	33,189
Non-controlling interests	284	–	–	–	–
	241,348	144,730	85,335	60,825	33,189

CHAIRMAN'S STATEMENT

It is my great pleasure to present the annual results of the Group for 2010 to you. It had been an exhilarating year during which we celebrated the transfer of the Group's listing from Growth Enterprise Market of Hong Kong Stock Exchange to the Main Board. The attainment of this significant milestone in the Group's young 16 years history was made possible by the dedication of every member of the Group's 400 staff and four consecutive years of high double digits growth in both turnover and net profit.

The Group reached new heights in both turnover and net profit in 2010. Turnover registered 47% increase to HK$255,810,000 for the year end 2010, whereas net profit attributable to shareholders increased 25% to HK$58,026,000. The brisk growth was spearheaded by three existing drugs *Carnitene*®, *Livaracine*® and *Slounase*® with sales better by 46.6%, 50.7% and 33.3% respectively for the year 2010. Other newer products also contributed to the fast growth with *Ferplex*® leading the way with a leap of 47% over last year and newly launched *Zanidip*®, also making the mark with satisfactory progress in 2010..

During the year, the Group had also achieved considerable progress in expanding its sales and marketing infrastructure in China. In conjunction with the relaunch of *Zanidip*® in June, 2010, the Group has managed to build a 250 people strong direct sales force, covering 26 major cities in China in less than nine months. The creation of the Group direct sales organization would be complementary to the Group's well established distributor network, giving more flexibility and efficiency to the Group's product in the market place. It paves the way for more sustainable and more rapid sales growth in the future.

Research and development continued to be on the forefront of the Group's development in 2010. *Declotana*®, the first in class anti-platelet drug discovered and developed by the Group, has successfully completed the single dosing part of the ongoing phase I study and has since started the maintenance dosing phase. *Declotana*® so far has exhibited excellent safety profile and predicable anti-platelet activity in phase I study. It is expected that phase II study will be initiated in the second half of 2011. Progress had also been made in the Group's other proprietary anti-angiogenesis drug. Further to demonstration of efficacy in cancer animal model, it showed promising effect for treatment of Aged Related Macular degeneration (ARMD) in preclinical study. The Group will carry on additional studies on this drug and move it toward clinical study in an expedite way. In total, the Group has over 10 proprietary development programs in different stages which will be instrumental to the future growth of the Group.

Complemented to the Group's in-house research and development, the Group has been avidly pursuing its strategy of "Growth through Partnership" since 2003. The Group currently has 18 partners spanning the globe with 20 in-licensed products under contract for sales and marketing in China. The latest signing during the period under review was with Untied Therapeutics, an US pharmaceutical company specialized in helping pulmonary hypertension patients and listed on the New York Stock Exchange, for marketing *Remodulin®* in China. The introduction of *Remodulin®* will fulfill significant unmet medical need for pulmonary hypertension patients in China. In addition, several partnership discussion is ongoing and is expected to be consummated in 2011.

Going forward, we remain buoyant on the prospect of the Group in the future. The successful transfer of the Group's listing from Growth Enterprise Market to the Main Board of Hong Kong Stock Exchange has notably enhanced the profile of the company in the investor community as well as in the international pharmaceutical industry community, presenting the Group with many partnering and other opportunities. With Chinese government's commitment to expand the insurance coverage to more people with more products, the Group expects to see sizeable growth in its three newly admitted NDRL products in 2011 and beyond which will fuel the growth of the Group to reach new level in the future.

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

Lee Siu Fong
Chairman

Hong Kong, 21 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the Group, 2010 is a groundbreaking year in many different fronts. The transfer of listing from Growth Enterprise Market to the Main Board of Hong Kong Stock Exchange marked the new beginning for the Group. In May 2010, for the first time, the Group was recognized as 2010 Best Small-Cap Company in China (Ranked 2nd) for its stellar performance by leading financial magazine, FinanceAsia. The selection is the result of annual poll made by FinanceAsia from more than 300 investors and analyst across the region. The breakthrough was also achieved not only in turnover and profit, but also in sales and marketing, manufacturing and research and development.

Turnover and Profit

The growth of turnover accelerated in the fourth quarter of 2010 with 27% increase over the third quarter which has been the best quarter to quarter sequential growth in Group's young history. As a result, the turnover for the year 2010 jumped 47% to HK$255,810,000, whereas profit attributable to shareholders increased 25% to HK$58,026,000. The increase in turnover was spearheaded by three existing drugs *Carnitene*®, *Livaracine*® and *Slounase*® with sales better by 46.6%, 50.7% and 33.3% respectively for the year 2010. Other newer products also contributed to the fast growth with *Ferplex*® leading the way with a leap of 47% over last year and newly launched *Zanidip*®, also making the mark with satisfactory progress in 2010. The growth in net profit lagged behind the growth in turnover in 2010 as the Group made substantial investment in building the direct sales force which resulted in a decrease in net profit margin. The Group considers that the short term drop in net profit is manageable and the investment in expanding the sales and marketing infrastructure is paramount to the future growth of the Group and will reap significant benefit in the long run..

Manufacturing facility

In 2010, the Group had spent HK$5 million in renovating and expanding its manufacturing facility in Hefei. The renovation was timely as China SFDA has introduced new GMP guidelines modeled after European Union's GMP requirements. Further investment is expected this year to ensure the facility hardware is fully in compliance with the new requirements. In addition, to cope with the increasing market demand, manufacturing capacity for the Group's key product *Livaracine*® has been tripled by installing a state-of-art lyophilizer. The Group plans to further upgrade its manufacturing capability and capacity by erecting new facility in Nansha, Guangzhou. The new facility will allow the Group to broaden its product offering to different dosage form such as oral solution and inhale formulation.

Drug development

The Group continued to deploy significant resources on drug development in order to speed up the launch of new products and maintain the growth in revenue and profit of the Group. Significant milestone for drugs development has been achieved.

Declotana®, the first in class anti-platelet drug discovered and developed by the Group, has successfully completed the single dosing part of the ongoing phase I study and has since started the maintenance dosing phase. *Declotana*® so far has exhibited excellent safety profile and predicable anti-platelet activity in phase I study. It is expected that phase II study will be initiated in the second half of 2011. Progress had also been made in the Group's other proprietary anti-angiogenesis drug. Further to demonstration of efficacy in cancer animal model, it showed promising effect for treatment of Aged Related Macular Degeneration (ARMD) in preclinical study. The Group will carry on additional studies on this drug and move it toward clinical study in an expedite way. In total, the Group has over 10 proprietary development programs in different stages which will serve as catalyst to the future growth of the Group.

New submission for clinical approval was made to China SFDA in September for an in-house development product ZK006 for the treatment of liver fibrosis.

Approval also has been obtained during the year from China SFDA to initiate clinical study for the license-in product *Trittico*® (with active ingredient Trazodone Hydrochloride). The target indication for *Trittico*® is depression with or without anxiety, including sleep disorders in depressed patients. As general awareness of mental health continues to improve, the directors anticipate large unmet demand for the treatment of depression. This is the fifth clinical study approval obtained by the Group and again ascertains the Group's regulatory capability.

During 2010, the Group has initiated a new clinical study for *Yallaferon*® in treatment of cervicitis with HPV infection and its indications will be expanded if the intended clinical end point of the study is reached. A phase III study for *Carnitene*® on heart failure has also been kicked off during the period under review. The study is a randomized, multi-centers and placebo-controlled trial and its successful conclusion could further expand *Carnitene*®'s clinical application.

Primary endpoint and secondary endpoint had been met in the Group's Phase III clinical study of its in-licensed product *Dromos*® (Propionyl-L-Carnitine hydrochloride tablets "PLC"). It demonstrates that PLC is effective and safe in treatment of intermittent claudication. Application for Import Drug License will be submitted by end of March and product launch could be expected for 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Imported Products registration

2010 was also a busy year for imported product registration in China. Throughout the year, the Group made 8 submission to China SFDA, ranging from application for Import Drug License to application for changing secondary packaging site.

After successful completion of the required studies, the Group has filed the application for Import Drug License for oral *Carnitene®* in December 2010. The anticipated approval will supplement to the current marketed injection formulation and boost the competitiveness of the Group's *Carnitene®* franchise.

Four submissions were made for clinical study approval for four different products, namely *Unidrox®*, *Dropaxin®*, *Zanipress®* and *Gliatilin®* in 2010. Those products target a wide range of areas with highly unmet medical needs and will broaden the Group's product reach.

In 2010, the Group has also applied to change the secondary packaging site of *Gaslon N®* to the Group's wholly owned subsidiary Zhaoke Pharmaceutical (Hefei) Co. Limited in Hefei and has since obtained the approval for that. The Group is now preparing to relaunch *Gaslon N®* in China in the second half of 2011.

International Partnerships

The incessant pursuit of "Growth Through Partnership" strategy had paid handsome dividend for the Group in 2010 during which three new partnerships were established, bring the total number of partner company to 18 for 20 products. Those three partnerships also illustrate the strategy of the Group to focus on key areas such as cardiovascular and to balance its product portfolio with market ready product and long term development program.

During the year, the Group entered into an exclusive agreement with Carbostent & Implantable Devices S.r.l. (CID) for the distribution of PTCA Balloon Catheters and Carbostent aimed at treating coronary artery disease in China. PTCA has been adopted as a major treatment strategy for patients with cardiovascular disease in China and the use of stent implementation has grown rapidly. CID's balloon has already been approved for marketing in China and the Group now is preparing for the launch of the product.

The Group also concluded an agreement with Untied Therapeutics, an US pharmaceutical company list on the New York Stock Exchange, for marketing *Remodulin®* in China The introduction of *Remodulin®* could fulfill significant unmet medical need for pulmonary hypertension patients in China. The registration of *Remodulin®* is underway and approval could be expected as early as next year.

The Group also executed a licensing agreement with US National Institute of Health (NIH) under which the Group has secured the right to develop a peptide drug for topical treatment of Psoriasis in the territories of China and certain southeast Asia countries. This is the second peptide that the Group has licensed from NIH, a premium medical research institute in US, for dermatological indications. The product is in early preclinical study and it displays the Group's devotion to long term development.

Sales and marketing

During the year, the Group had also achieved considerable progress in expanding its sales and marketing infrastructure in China. In conjunction with the relaunch of Zanidip in June 2010, the Group has managed to build a 250 people strong direct sales force, covering 26 major cities in China in less than nine months. To ensure its direct sales force well equipped in meeting the market challenge, the Group has implement a professional management program "Sales Force" to the direct sales organization. The goal is to establish a well managed professional team that will deliver results for the Group. The creation of the Group direct sales organization would be complementary to the Group's well established distributor network, giving more flexibility and efficiency to the Group's product in the market place. It paves the way for more sustainable and more rapid sales growth in the future.

The Group had strived to improve the quality of its distribution network during 2010 by working closer with distributors in the areas of product knowledge education and concerted marketing efforts. The Group had held seminar to provide both product knowledge and selling technique training to the medical representatives of its distributors. Workshop had been put in place to share successful experiences among distributors. In addition, several speaking tours by foreign and China key opinion leaders had been organized to bring up-to-date medical progress and product information to healthcare providers in China.

In order to better position the Group in China's ever changing pharmaceutical industry environment, the Group has invested in a company licensed for distribution of pharmaceutical products in China. The Group has 67% stake in the subsidiary and the company had passed the required GSP inspection. The Directors expect that the subsidiary will allow the Group to handle the importation, warehousing and distribution of its license-in products with greater flexibility and better efficiency. As the sales of license-in products are expected to increase significantly in the future, the cost saving aspect could also be significant for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2010 was HK$255,810,000, representing an increase of HK$81,973,000 or 47% from previous year. The growth was mainly contributed by *Carnitene*®, *Livaracine*® and *Slounase*® with sales increased by 46.6%, 50.7% and 33.3% respectively for the year 2010. *Zanidip*®, which was launched in the second quarter of 2010, also contributed to the turnover. Profit attributable to shareholders reached HK$58,026,000 for the year 2010, an increase of 25% over 2009.

Gross Profit Margin

Gross profit margin for the year 2010 was 69.8%, represented a drop of 1.9 percentage point compared with gross profit margin of 71.7% for the year 2009. The decrease in gross profit margin was mainly caused by sharp increase in raw material cost early this year for the production of *Livaracine*®. As the raw material cost leveled off in the second quarter and started to drop in the third quarter of 2010, the directors expected that the gross profit margin will improve in the coming year.

Administrative Expenses

To cope with the fast expansion, the Group has made significant investment in human resources. Administrative expenses for the year 2010 increased by HK$6.8 million or 30% compared with that of 2009 mainly due to increase in staff cost and one-off expenses in relation to transfer to Main Board of the Stock Exchange.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the year 2010 was 31 %, represented an increase of 3.5 percentage points compared with 27.5% for that of previous year. The upward spike was the result of the Group's substantial investment in building its direct sales force of 250 people strong in less than 9 months in 2010. The intensified marketing efforts for the launch of new products *Zanidip*®, *Defnegin*® and *Veloderm*® also contributed to the increase. The increased in sales and market expenses was the reason that the Group registered lower net profit margin and slower growth in net profit in the year. However, the Group considers that the short term drop in net profit is manageable and the investment in expanding the sales and marketing infrastructure is paramount to the future growth of the Group and will reap significant benefit for the Group in the long run.

Liquidity and Financial Resources

As at 31 December 2010, the Group had cash and bank balances and pledged bank deposits of approximately HK$122 million (31 December 2009: HK$62.49 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 3.38 times (31 December 2009: 2.01 times). As at 31 December 2010, the Group had bank and other borrowings of approximately HK$17.76 million and shareholders' funds of approximately HK$241.1 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was nil as at 31 December 2010 and 31 December 2009.

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 2010, the Group has pledged leasehold land and building with an aggregate amount of HK$8,678,271 (31 December 2009: leasehold land and building of HK$9,284,721) to secure general banking facilities granted to the Group. Motor vehicle with carrying value of HK$664,400 (31 December 2009: HK$745,755) was held under finance lease.

In addition, time deposits of HK$2 million were pledged as securities for banking facilities as at 31 December 2010 (31 December 2009: HK$2.01 million).

Contingent Liabilities

As at 31 December 2010, the Group had no contingent liabilities.

Employee Information

As at 31 December 2010, the Group had 440 employees (2009: 287 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$37.15million (2009: HK$30.13million).

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

Going forward, we remain buoyant on the prospect of the Group in the future. The successful transfer of the Group's listing from Growth Enterprise Market to the Main Board of Hong Kong Stock Exchange has notably enhanced the profile of the company in the investor community as well as in the international pharmaceutical industry community, presenting the Group with many partnering and other opportunities. With Chinese government's commitment to expand the insurance coverage to more people with more pharmaceutical products, the Group expects to see sizeable growth in its three newly admitted NDRL products in 2011 and beyond which will fuel the growth of the Group to reach new level in the future.

The establishment of the direct sales organization that covers 26 major cities has greatly enhanced the Group's capability and capacity in the market place, permitting flexibility while improving the efficiency and effectiveness. It complements to the Group's well established distributor network and provides full strength to the Group's sales and marketing efforts. It puts the Group in superb position to benefit from the healthcare reform in China.

With the new NDRL has started to be implemented in province by province base across the country since the fourth quarter of 2010, the Group expects to see accelerated sales growth for the newly admitted products *Carnitene*®, *Slounase*® and *Eyprotor*® in the coming year. The other existing products such as *Livaracine*® and *Zanidip*®, are also expected to maintain its growth momentum and contribute significantly to the overall growth of the Group.

At least two new products, namely Brio PTCA balloon and *Gaslon N*® will be launched in the second quarter of 2011. Two or three products are also expected for approval in latter part of this year. Those new launches could generate excitement in the market place and facilitate the overall marketing efforts of the Group.

With continual growth in pipeline products, expansion in sales and marketing organization and more products available to the market place, it is envisaged that the Group will keep up with its growth momentum and continue to deliver satisfactory return to its shareholders.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 54

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 & Sales Officer, 57

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, 48, PhD

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

NON-EXECUTIVE DIRECTOR

Mauro Bove, *56*

Mr. Mauro Bove ("Mr. Bove") joined the Group on 9 May 2005. He obtained his law degree at the University of Parma, Italy, in 1980 and has more than thirty years of business and management experience within the pharmaceutical industry. Mr. Bove 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 also a board member of several private and public companies, both in Europe and in the U.S. He is connected with Defiante Farmaceutica S.A. ("Defiante"), a substantial shareholder of the Company as Defiante is a company belonging to Sigma-Tau Group. Save as disclosed above, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the Listing Rules).

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director & chairman of audit committee, 48, 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, 49, 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 23 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, 52, 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 Life Science 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, 74, 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, 52

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, 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 held senior positions in listed companies prior to joining the Group. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and holds a Master degree in International Accounting from City University of Hong Kong.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 36.

An interim dividend of HK$0.01 (2009: HK$0.008) per share, amounting to HK$4,508,000 was paid to shareholders on 29 September 2010.

The Board of Directors recommended a final dividend of HK$0.02 (2009: HK$0.016) per share to shareholders registered in the Company's Register of Members as at the close of business on 12 May 2011. Upon approval by shareholders, the final dividend will be paid on or about 27 May 2011.

SEGMENTAL INFORMATION

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

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 5 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in notes 29 and 33 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.

CHARITABLE DONATION

Charitable donation made by the Group during the year amounted to HK$312,000 (2009: Nil).

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 30 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 2010, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$116.2 million. This includes the Company's share premium in the amount of HK$103.1 million at 31 December 2010, 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 16.0% in aggregate for the Group's total turnover for the year (2009: 19.78%).

Purchase from the Group's five largest suppliers accounted for approximately 82.14% in aggregate for the Group's total purchases for the year (2009: 86.57%). The largest supplier of the Group accounted for approximately 22.44% of the Group's total purchases (2009: 44.98%).

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:
Lee Siu Fong
Leelalertsuphakun Wanee
Li Xiaoyi

Non-executive director:
Mauro Bove

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

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

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.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing. Salaries and allowances are determined by the Board and current salaries and allowances are HK$ 133,308 per month for Ms. Leelalertsuphakun Wanee and HK$95,287 per month for Ms. Lee Siu Fong. Bonus will be paid at the absolute discretion of the Board.

Dr. Li has service contract with the Company since 1 September 2003 and after that the contract has been renewed. It has been renewed for another three years since 1 September 2010. Salary and allowances is HK$183,762 per month. Bonus will be paid at the absolute discretion of the Board. Both parties shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee and Dr. Li together, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Each of Mr. Lam Yat Cheong ("**Mr. Lam**") and Dr. Tsim Wah Keung, Karl ("**Dr. Tsim**") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent nonexecutive Director. Mr. Lam has a three-year service contract with the Company from 1 July 2007 and the contract has been renewed for three years from 1 July 2010. Dr. Tsim has a three-year service contract with the Company from 20 September 2007 and the contract has been renewed for three years from 20 September 2010. Director's fee is HK$60,000 per annum and bonus will not be paid for each of the Directors.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007 and the contract has been renewed for three years from 12 October 2010. Director's fee is HK$60,000 per annum and bonus will not be paid.

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

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 2010 were as follows:

		Number of share options				
Grantees	Date of Grant	Outstanding at 1.1.2010	Granted	Exercised	Lapsed	Outstanding at 31.12.2010
Directors						
Lee Siu Fong	25.09.2009	448,000	–	–	–	448,000
	20.12.2010	–	465,000	–	–	465,000
Leelalertsuphakun Wanee	27.08.2009	448,057	–	–	–	448,057
	06.09.2010	–	450,000	–	–	450,000
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
	25.09.2009	448,000	–	–	–	448,000
	20.12.2010	–	465,000	–	–	465,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
	20.12.2010	–	300,000	–	–	300,000
Lam Yat Cheong	11.07.2005	300,000	–	–	–	300,000
Sub-total of Directors		5,534,057	1,680,000	–	–	7,214,057
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
	20.12.2010	–	250,000	–	–	250,000
Sub-total of employees and consultants		9,160,000	4,460,000	(720,000)	–	12,900,000
Grand total		14,694,057	6,140,000	(720,000)	–	20,114,057

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
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

Date of Grant	Exercise period		Exercise price per share HK$
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	1.076
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.12.2010-24.09.2019	
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	2.20
	(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	
06.09.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011-05.09.2020	2.99
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011-05.09.2020	
20.12.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020	3.75
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	

Save as disclosed above, as at 31 December 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 31 December 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 shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		3,304,375		
	Interest of corporation	(i)	124,690,625	127,995,000	27.48
Leelalertsuphakun Wanee	Beneficial owner		109,000		
	Interest of corporation	(i)	124,690,625	124,799,625	26.79
Li Xiaoyi	Beneficial owner		35,105,000		
	Interest of spouse	(ii)	16,000,000	51,105,000	10.97
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.26
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.06

Notes:

(i) 124,690,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

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

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	913,000	913,000
Leelalertsuphakun Wanee	Beneficial owner	898,057	898,057
Li Xiaoyi	Beneficial owner	3,803,000	3,803,000
Mauro Bove	Beneficial owner	1,300,000	1,300,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
		7,214,057	7,214,057

(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	127,995,000	913,000	128,908,000
Leelalertsuphakun Wanee	124,799,625	898,057	125,697,682
Li Xiaoyi	51,105,000	3,803,000	54,908,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung. Karl	300,000	–	300,000
Mauro Bove	–	1,300,000	1,300,000
Lam Yat Cheong	–	300,000	300,000

As at 31 December 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 31 December 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 31 December 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	25.82
Defiante Farmaceutica, S.A.	Beneficial owner		132,350,000	28.41
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.43
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.43
	Interest of spouse	(ii)	35,105,000	7.54

(b) Underlying shares

Name	Capacity and nature	*Notes*	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	3,803,000

(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
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,105,000	3,803,000	54,908,000

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 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.

CONTINUING CONNECTED TRANSACTIONS

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

The continuing connected transactions were approved by independent shareholders where the Cap of sales of *Carnitene*® and other pharmaceutical products to the Company by the Sigma-Tau Group for the year ended 31 December 2010 would not exceed HK$29,131,340.

For the year ended 31 December 2010, sales of *Carnitene*® and other pharmaceutical products to the Company by the Sigma-Tau Group amounted to HK$14,674,601.

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 Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

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 2010 (2009: 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 3.13 of the 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.

REPORT OF THE DIRECTORS

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 Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2010.

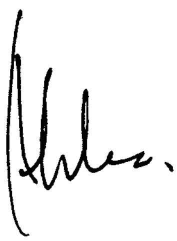
AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2010 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, 21 March 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Main Board Listing Rules throughout the financial year ended 31 December 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.

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2010, 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. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2010.

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 2010, 13 full board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong *(Chairman)*	13/13	100%
Leelalertsuphakun Wanee	13/13	100%
Li Xiaoyi	13/13	100%
Non-executive Director		
Mauro Bove	10/13	77%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	12/13	92%
Lam Yat Cheong	11/13	85%
Tsim Wah Keung, Karl	9/13	69%

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 with written terms of reference in compliance with Rules 3.21of 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 (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 2010, 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	2/4	50%

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 2010, 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 2010, all the remuneration paid to the Company's auditors HLM & Co. of amount HK$595,100 was audit services fee.

INDEPENDENT AUDITORS' REPORT

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

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香港皇后大道西 2-12 號聯發商業中心 305 室
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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 36 to 113 which comprise the consolidated and Company's statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

HLM & Co.
Certified Public Accountants

Hong Kong, 21 March 2011

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	6	255,810	173,837
Cost of sales		(77,320)	(49,262)
Gross profit		178,490	124,575
Other revenue	8	5,536	4,911
Gain on deemed disposal of a subsidiary	36	234	–
Selling and distribution expenses		(79,193)	(47,842)
Research and development expenses		(5,590)	(5,686)
Administrative expenses		(29,299)	(22,486)
Profit from operations	9	70,178	53,472
Share of results of associates		(1,159)	–
Finance costs	10	(1,058)	(689)
Profit before taxation		67,961	52,783
Taxation	13	(10,039)	(6,414)
Profit for the year		57,922	46,369
Attributable to:			
Shareholders of the Company		58,026	46,369
Non-controlling interests		(104)	–
		57,922	46,369
Dividend	14	13,825	10,788
		HK cents	HK cents
Earnings per Share			
Basic	15	12.80	10.85
Diluted	15	12.43	10.64

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	57,922	46,369
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	2,832	346
– revaluation of overseas buildings	129	32
– share of other comprehensive income of associates	5,855	–
Other comprehensive income for the year, net of tax	8,816	378
Total comprehensive income for the year	66,738	46,747
Total comprehensive income attributable to:		
Shareholders of the Company	66,834	46,747
Non-controlling interests	(96)	–
	66,738	46,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	2010 HK$'000	(Restated) 2009 HK$'000
Non-current Assets			
Property, plant and equipment	16	26,880	25,085
Intangible assets	17	64,792	59,305
Lease premium for land	18	1,235	1,225
Goodwill	19	3,900	3,900
Investment in associates	21	8,536	–
		105,343	89,515
Current Assets			
Lease premium for land	18	34	33
Inventories	22	23,171	26,814
Trade receivables	23	41,065	13,392
Other receivables, deposits and prepayments		19,996	16,318
Pledged bank deposits	24	2,000	2,012
Time deposits	24	54,517	–
Cash and bank balances	24	65,587	60,482
		206,370	119,051
Current Liabilities			
Trade payables	25	473	1,642
Bills payable		1,402	–
Other payables		38,340	39,434
Bank borrowings	26	17,756	16,671
Obligations under finance lease	27	140	129
Tax payable		2,910	1,299
		61,021	59,175
Net Current Assets		145,349	59,876
Total Assets less Current Liabilities		250,692	149,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	2010 HK$'000	(Restated) 2009 HK$'000
Capital and Reserves			
Share capital	29	23,292	22,506
Reserves		217,772	122,224
Equity attributable to shareholders of the Company		241,064	144,730
Non-controlling interests	37	284	–
Total equity		241,348	144,730
Non-current Liabilities			
Deferred tax liabilities	28	8,984	4,161
Obligations under finance lease	27	360	500
		9,344	4,661
		250,692	149,391

The financial statements on pages 36 to 113 were approved and authorised for issue by the Board of Directors on 21 March 2011 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current Assets			
Intangible assets	17	3,840	3,840
Interests in subsidiaries	20	95,133	64,058
		98,973	67,898
Current Assets			
Other receivables, deposits and prepayments		294	101
Cash and bank balances	24	40,431	15,505
		40,725	15,606
Current Liabilities			
Other payables		201	355
Net Current Assets		40,524	15,251
Total Assets less Current Liabilities		139,497	83,149
Capital and Reserves			
Share capital	29	23,292	22,506
Reserves	30	116,205	60,643
		139,497	83,149

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to the shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non – controlling interests HK$'000	Total HK$'000
At 1 January 2010	22,506	63,491	9,200	1,190	–	3,689	2,950	41,704	144,730	–	144,730
Employee share option benefits	–	–	–	850	–	–	–	–	850	–	850
Exercise of share option	36	237	–	(71)	–	–	–	–	202	–	202
Issue of ordinary shares	750	39,415	–	–	–	–	–	–	40,165	–	40,165
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	380	380
Profit for the year	–	–	–	–	–	–	–	58,026	58,026	(104)	57,922
Other comprehensive income for the year	–	–	–	–	5,855	129	2,824	–	8,808	8	8,816
Total comprehensive income for the year	–	–	–	–	5,855	129	2,824	58,026	66,834	(96)	66,738
2009 final dividend	–	–	–	–	–	–	–	(7,209)	(7,209)	–	(7,209)
2010 interim dividend	–	–	–	–	–	–	–	(4,508)	(4,508)	–	(4,508)
At 31 December 2010	23,292	103,143	9,200	1,969	5,855	3,818	5,774	88,013	241,064	284	241,348
At 1 January 2009	20,764	44,533	9,200	1,088	–	3,657	2,604	3,489	85,335	–	85,335
Employee share option benefits	–	–	–	325	–	–	–	–	325	–	325
Exercise of share options	228	1,235	–	(223)	–	–	–	–	1,240	–	1,240
Issue of ordinary shares	1,514	17,723	–	–	–	–	–	–	19,237	–	19,237
Profit for the year	–	–	–	–	–	–	–	46,369	46,369	–	46,369
Other comprehensive income for the year	–	–	–	–	–	32	346	–	378	–	378
Total comprehensive income for the year	–	–	–	–	–	32	346	46,369	46,747	–	46,747
2008 final dividend paid	–	–	–	–	–	–	–	(4,568)	(4,568)	–	(4,568)
2009 interim dividend paid	–	–	–	–	–	–	–	(3,586)	(3,586)	–	(3,586)
At 31 December 2009	22,506	63,491	9,200	1,190	–	3,689	2,950	41,704	144,730	–	144,730

Other reserves represents the share of an associate's share premium and it is arising from the allotment of issued shares of an associate.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$'000	2009 HK$'000
Operating activities		
Profit before taxation	67,961	52,783
Adjustments for:		
Profit on deemed disposal of a subsidiary	(234)	–
Share of loss of associates	1,159	–
Depreciation of property, plant and equipment	5,701	4,221
Interest expenses	904	601
Interest income	(164)	(79)
Amortisation of intangible assets	1,853	936
Amortisation of leasehold premium for land	33	33
Bad debt written off	–	10
Intangible asset written off	387	1,358
Exchange difference	550	(20)
Share based payments	850	325
Stock written off	–	81
Allowance for bad and doubtful debts	202	145
Loss on disposal of property, plant & equipment	164	54
Operating cash flows before movements in working capital	79,366	60,448
Decrease (increase) in inventories	3,281	(19,985)
(Increase) decrease in trade receivables	(27,714)	4,434
Increase in other receivables, deposits and prepayment	(3,350)	(11,172)
(Decrease) increase in trade payables	(1,172)	44
Increase in bill payables	1,402	–
Increase in other payables	21,034	24,674
Cash from operations	72,847	58,443
Interest paid	(904)	(601)
Income tax paid	(3,734)	(3,458)
Net cash generated from operating activities	68,209	54,384
Investing activities		
Interest received	164	79
Purchase of plant and equipment	(7,345)	(9,610)
Additions of deferred development cost	(28,438)	(32,394)
Proceeds from sale of property, plant and equipment	96	–
Decrease in pledged deposit	12	–
Capital contribution in associates	(3,919)	–
Capital contribution from non-controlling interests	380	–
Net cash used in investing activities	(39,050)	(41,925)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
Financing activities			
New loan raised		9,440	21,837
Repayment of loans		(8,556)	(9,033)
New trust receipt loans raised		208	661
Repayment of trust receipt loans		(208)	(661)
Proceed from obligation under finance lease		–	720
Repayment of obligation under finance lease		(129)	(90)
Deemed disposal of a subsidiary	36	(2)	–
Net proceed from issuance of ordinary shares		40,165	19,237
Net proceeds from issue of ordinary shares upon exercise of share options		202	1,240
Dividend paid		(11,717)	(8,154)
Net cash generated from financing activities		29,403	25,757
Net increase in cash and cash equivalents		58,562	38,216
Cash and cash equivalents at 1 January		60,482	22,182
Effect of foreign exchange rate changes		1,060	84
Cash and cash equivalents at 31 December		120,104	60,482
Analysis of the balance of cash and cash equivalents			
Cash and bank balances		65,587	60,482
Time deposits		54,517	–
		120,104	60,482

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board 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 (HKFRSs)

The following new and revised Standards and Interpretation issued by the Hong Kong Institutes of Certified Public Accountants (HKICPA) have been applied by the Group in the current year. The impact of the application of the new and revised Standards and Interpretations is discussed below.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

In line with the amendments to HKAS 1, the Group has classified the liability component of convertible bonds issued in the current year as non-current based on when cash settlement is required to be made. This amendment has had no effect on amounts reported in prior years because the Group has not previously issued instruments of this nature.

Amendments to HKFRS 7 Financial Instruments: Disclosures (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advanced of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such item loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$8,315,560 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$5,531,908 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

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

New and revised Standards and Interpretations applied with no material effects on the consolidated financial statements

The following new and revised Standards and Interpretations have also been applied in these consolidated financial statements. The application of these new and revised Standards and Interpretations has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time adopters*	The amendments provide two exemptions when adopting HKFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payments Transactions*	The amendments clarify the scope of HKFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2008)*	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain in a non-controlling interest in the subsidiary after the sale.

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

New and revised Standards and Interpretations applied with no material effects on the consolidated financial statements *(continued)*

Amendments to HKAS 7 *Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)*	The amendments specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.
Amendments to HKAS 17 *Leases*	The amendments clarify that classification of unexpired leasehold should be reassessed based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant and equipment.
HKAS 28 (as revised in 2008) Investments in Associates	The principle adopted under HKAS 27 (as revised in 2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate at fair value, with any consequential gain or loss recognised in profit or loss. In addition, as part of Improvements to HKFRSs issued in 2010, HKAS 28 (as revised in 2008) has been amended to clarify that the consequential amendments to HKAS 28 in relation to transactions were the investor loses significant influence over an associate should be applied prospectively. The Group has applied the amendments to HKAS 28 (as revised in 2008) as part of Improvements to HKFRSs issued in 2010 in advance of their effective dates (annual periods beginning on or after 1 July 2010).

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

New and revised Standards and Interpretations applied with no material effects on the consolidated financial statements *(continued)*

Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as hedged risk or portion and hedging with options.
HK-Int 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*	HK Int 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities.
HK (IFRIC) – Int 17 *Distributions of Non-cash Assets to Owners*	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
HK (IFRIC) – Int 18 *Transfers of Assets from Customers*	The Interpretation addresses the accounting by recipients for transfer of property, plant and equipment from 'customers' and concludes that when the items of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit rating being recognised as revenue in accordance with HKAS 18 *Revenue*.
Improvements to HKFRSs issued in 2009	Except for the amendment to HKAS 1 as described earlier, the application of *Improvements to HKFRSs issued in 2009* has not had any material effect on amounts reported in the consolidated financial statements.

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

New and revised Standards and Interpretations in issue but not yet effective

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 7 and HKAS 1 [1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [2]
HKFRS 9 (Revised)	Financial Instruments [3]
HKAS 24 (as revised in 2009)	Related Party Disclosures [4]
HKAS 32 (Amendments)	Classification of Rights Issues [5]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 February 2010

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measurement at their fair values at the end of subsequent accounting periods.

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

New and revised Standards and Interpretations in issue but not yet effective *(continued)*

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 *titled Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

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

The amendments to HKAS 32 *titled Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and difference between the carrying amount of financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold buildings. Historical cost is generally based on the fair value of the consolidation given in exchange for assets.

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 of Hong Kong Limited 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries after 1 January 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in the Group's ownership interests in existing subsidiaries after 1 January 2010 *(continued)*

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

Business combinations

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

At the acquisition date, the identifiable assets, acquired and the liabilities assumed are recognised at their fair values at the acquisition date, except that:

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

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

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination *(continued)*

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination *(continued)*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interest in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, could have affected the amounts recognised as of that date.

Goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associate

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, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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 discontinued recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any access of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associate *(continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any related investment in measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it losses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

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

Property, plant and equipment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. With the effect of any changes in estimate accounted for on a prospective basis.

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

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 statements.

Inventories

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

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure

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

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

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

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use, in accessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Retirement benefit costs

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

The pension schemes covering all the Group's employees in the People Republic of China ("PRC") 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)*

Leasing

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

The Group as lessee

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as profit or loss over the period necessary to match them with the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognise in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, and added to the cost of those assets, until such time as 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL have two subcategories, including financial assets held for trading and those designated at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at FVTPL (continued)

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item in the consolidated income statement. Fair value is determined by referenced to market prices or generally accepted pricing models based on described cash flow analysis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits, and bank balances and cash are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities at FVTPL (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated income statement. Fair value is determined basis as the financial assets.

Other financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount an initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

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

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

On derecognised of a financial asset other than in its entirely (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

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

When some or all of the economic benefits required to settle a provision and expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18 Revenue.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2010 was approximately HK$26,880,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 33% per annum or over the term of the lease, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

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

Impairment on trade receivables

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

Impairment on inventories

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. After assessment, the carrying amount of goodwill is HK$3,900,000 as at 31 December 2010, there is no impairment on goodwill during the year.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Currency risk

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

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

	Assets	Liabilities
	2010	2010
	HK$'000	HK$'000
Renminbi ("Rmb")	49,719	9,440
USD	19,357	–
Euro	9,842	–
	78,918	9,440

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

	2010
	HK$'000
Increase in profit for the year	3,474

Interest rate risk

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

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to 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 of the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivate financial liabilities. The tables have been drawn up the financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivate financial liabilities is prepared based on the scheduled repayment dates.

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

Liquidity tables *(continued)*

	On demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total HK$'000
31/12/2010				
Non-derivate financial assets				
Trade and other receivables	20,371	31,135	9,555	61,061
Pledged bank deposits	–	2,000	–	2,000
Time deposit	54,517	–	–	54,517
Cash and bank balances	65,587	–	–	65,587
	140,475	33,135	9,555	183,165
Non-derivate financial liabilities				
Trade, bills and other payables	39,790	308	117	40,215
Obligations under finance leases	11	23	106	140
Bank Borrowings	8,316	–	9,440	17,756
	48,117	331	9,663	58,111

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

Liquidity tables *(continued)*

	On demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total HK$'000
31/12/2009				
Non-derivate financial assets				
Trade and other receivables	16,318	12,881	511	29,710
Pledged bank deposits	–	2,012	–	2,012
Cash and bank balances	60,482	–	–	60,482
	76,800	14,893	511	92,204
Non-derivate financial liabilities				
Trade, bills and other payables	39,434	1,642	–	41,076
Bank Borrowings	10,971	–	5,700	16,671
Obligations under finance leases	10	21	98	129
	50,415	1,663	5,798	57,876

6. TURNOVER

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

7. SEGMENT INFORMATION

Application of HKFRS 8 Operating Segments

HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance.

Principal activities are as follows:

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

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

	Proprietary products		Licensed products		Consolidated	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Segment turnover	148,726	106,275	107,084	67,562	255,810	173,837
Segment results	48,979	40,017	28,988	19,631	77,967	59,648
Interest income					164	79
Gain on deemed disposal of a subsidiary					234	–
Unallocated expenses					(8,187)	(6,255)
Profit from operations					70,178	53,472
Finance costs					(1,058)	(689)
Profit before share of results of associates					69,120	52,783
Share of results of associates					(1,159)	–
Profit before taxation					67,961	52,783
Taxation					(10,039)	(6,414)
Profit for the year					57,922	46,369

7. SEGMENT INFORMATION *(continued)*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2009: Nil).

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

	Proprietary products		Licensed products		Consolidated	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Segment assets	92,689	61,753	91,065	84,318	183,754	146,071
Unallocated assets					127,959	62,495
Total assets					311,713	208,566
Segment liabilities	34,801	15,423	23,670	26,282	58,471	41,705
Unallocated liabilities					11,894	22,131
Total liabilities					70,365	63,836

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

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

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

7. SEGMENT INFORMATION *(continued)*

Geographical information

During the years ended 31 December 2010 and 2009, 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	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Segment assets	143,814	93,585	167,899	114,981	311,713	208,566
Segment liabilities	40,321	24,794	30,044	39,042	70,365	63,836

8. OTHER REVENUE

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Interest income on bank deposits	164	79
Development grants	881	1,625
Other income	4,491	3,207
	5,536	4,911

9. PROFIT FROM OPERATIONS

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	5,701	4,221
Amortisation of intangible assets	1,853	936
Total depreciation and amortisation	7,554	5,157
Auditors' remuneration	595	589
Listing costs	1,235	–
Staff costs	36,297	29,807
Share based payments	850	325
Research and development costs	5,590	5,686
Operating lease payments in respect of rented premises	3,503	2,669
Bad debts written off	–	10
Allowance for bad and doubtful debts	202	145
Loss on disposal of plant and equipment	164	54

10. FINANCE COSTS

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five year	904	601
Bank charges	61	88
Guarantee fee for loan	93	–
	1,058	689

11. DIRECTORS' REMUNERATIONS

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

The emoluments paid or payable to each of the 7 (2009: 7) directors were as follows:

The Group	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Employer's contributions to pension schemes HK$'000	2010 Total emoluments HK$'000	2009 Total emoluments HK$'000
Executive Directors					
Lee Siu Fong	–	1,320	12	1,332	1,167
Leelalertsuphakun Wanee	–	1,800	12	1,812	1,524
Li Xiaoyi	–	2,453	12	2,465	2,193
Non-executive Director					
Mauro Bove	75	–	–	75	75
Independent non- executive Directors					
Chan Yau Ching	53	–	–	53	50
Lam Yat Cheong	55	–	–	55	50
Tsim Wah Keung	53	–	–	53	50
Total	236	5,573	36	5,845	5,109

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2009: two) individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	1,350	1,142
Contributions to retirement benefits schemes	24	24
	1,374	1,166

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

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

13. TAXATION

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Current tax		
Hong Kong	1,368	–
PRC Enterprise Income Tax	3,945	4,388
Over-provision in prior year	(14)	(312)
	5,299	4,076
Deferred tax		
Hong Kong	3,216	1,789
PRC Enterprise Income Tax	1,524	549
	4,740	2,338
	10,039	6,414

13. TAXATION *(continued)*

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Hong Kong Profits Tax for the year 2009 has not been provided as the Group had no assessable profit in Hong Kong for the year.

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

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

	2010 HK$'000	2009 HK$'000
Profit before taxation	67,961	52,783
Notional tax at the rates applicable to results in regions concern	10,564	8,141
Tax effect of share of result of an associate	191	–
Tax effect of non-deductible expenses	730	393
Tax effect of non-taxable revenues	(414)	(916)
Over provision in prior year	(14)	(312)
Tax effect on temporary differences not recognised	(486)	1,100
Temporary difference not recognised in last year	458	–
Tax effect of tax losses not recognised	244	52
Tax effect of PRC preferential tax allowance	(1,122)	–
Utilisation of tax losses previously not recognised	(112)	(2,044)
Tax charge for the year	10,039	6,414

At the 31 December 2010, the Group has unused estimated tax losses of HK$1.51 million (2009: HK$1.71 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

14. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Interim dividend paid – HK$0.01 (2009: HK$0.008) per share	4,508	3,586
Final dividend proposed – HK$0.02 (2009: HK$0.016) per share	9,317	7,202
	13,825	10,788

The final dividend of HK$0.02 (2009: HK$0.016) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. This proposed dividend is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2010.

15. EARNINGS PER SHARE

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

	THE GROUP	
	2010	2009
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK$58,026,000	HK$46,369,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	453,409,615	427,386,717
Effect of dilutive potential ordinary shares: Options	13,311,095	8,285,626
Weighted average number of ordinary shares for the purposes of diluted earnings per share	466,720,710	435,672,343

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group						
COST OR VALUATION						
At 1 January 2010	16,590	2,464	15,343	7,331	2,033	43,761
Exchange rate adjustments	582	–	527	158	43	1,310
Additions	–	36	5,168	1,425	716	7,345
Disposals	–	–	(3,345)	(179)	–	(3,524)
Deemed disposal of a subsidiary	–	–	(292)	–	–	(292)
At 31 December 2010	17,172	2,500	17,401	8,735	2,792	48,600
Comprising:						
At cost	–	2,500	17,401	8,735	2,792	31,428
At valuation	17,172	–	–	–	–	17,172
	17,172	2,500	17,401	8,735	2,792	48,600
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	6,840	550	8,128	2,865	293	18,676
Exchange rate adjustments	240	–	285	74	8	607
Charge for the year	1,135	493	2,252	1,515	306	5,701
Written off upon disposal	–	–	(3,094)	(170)	–	(3,264)
Deemed disposal of a subsidiary	–	–	–	–	–	–
At 31 December 2010	8,215	1,043	7,571	4,284	607	21,720
NET BOOK VALUES						
At 31 December 2010	8,957	1,457	9,830	4,451	2,185	26,880

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

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

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

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$5.71 million (2009: HK$6.26 million).

At 31 December 2010, the Group has pledged leasehold land and building with an aggregate amount of HK$8,678,271 (2009: HK$9,284,721) for banking facilities. Motor vehicles of HK$664,400 (2009: HK$ 745,755) is held under finance lease.

17. INTANGIBLE ASSETS

	License fee HK$'000	Development cost HK$'000	Total HK$'000
The Group			
COST			
At 1 January 2009	7,740	20,132	27,872
Exchange rate adjustments	–	165	165
Additions	31,113	3,827	34,940
Impairment	–	(1,358)	(1,358)
At 31 December 2009	38,853	22,766	61,619
Exchange rate adjustments	–	798	798
Additions	17,430	11,008	28,438
Impairment	–	(387)	(387)
Deemed disposal of a subsidiary	(21,433)	–	(21,433)
At 31 December 2010	34,850	34,185	69,035
AMORTISATION AND IMPAIRMENT			
At 1 January 2009	–	1,366	1,366
Exchange rate adjustments	–	12	12
Charge for the year	61	875	936
At 31 December 2009	61	2,253	2,314
Exchange rate adjustments	–	76	76
Charge for the year	931	922	1,853
Deemed disposal of a subsidiary	–	–	–
At 31 December 2010	992	3,251	4,243
NET BOOK VALUES			
At 31 December 2010	33,858	30,934	64,792
At 31 December 2009	38,792	20,513	59,305

17. INTANGIBLE ASSETS *(continued)*

The Company	License fee HK$'000
COST	
At 31 December 2010 and 31 December 2009	3,840

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

18. LEASE PREMIUM FOR LAND

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Net book value at 1 January	1,225	1,281
Exchange rate adjustment	77	10
	1,302	1,291
Amortisation for the year	(33)	(33)
Net book value at 31 December	1,269	1,258
Current portion of non-current assets	(34)	(33)
Non-current portion	1,235	1,225

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

19. GOODWILL

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

At the end of the reporting period, the Group assessed the recoverable amount of goodwill associated with certain of the Group's selling activities. The recoverable amount of the selling activities was assessed by reference to the relevant cash-generating unit's value in use. A discount factor of 10% per annum (2009: 10% per annum) was applied in the value in use model. No write-down of the carrying amounts of assets in the cash-generating unit was necessary.

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2010	2009
	HK$'000	HK$'000
Investments at cost:		
Unlisted shares	771	1
Amounts due from subsidiaries	94,362	64,057
	95,133	64,058

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

20. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's principal subsidiaries as at 31 December 2010 are set out as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2010 %	2009 %	2010 %	2009 %	
廣州兆科聯發醫藥有限公司	PRC	Ordinary	RMB1,000,000	67%	–	–	–	Dormant *(Note 1)*
Lee's Pharmaceutical International Limited	The British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited, formerly known as Lee's Pharmaceutical (Asia) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Trading of pharmaceutical products *(Note 2)*
Lee's Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$18,400,000	–	–	100%	100%	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd.	PRC	Ordinary	US$2,000,000	–	–	100%	100%	Manufacture and sale of pharmaceutical products
China Oncology Focus Limited	The British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Not yet commenced business

Notes:

1. In July 2010, the Company owns 67% equity interests in a newly set up company in PRC.

2. In November 2010, Lee's Pharmaceutical (Asia) Limited changed its name to Zhaoke Pharmaceutical (HK) Limited, and share capital increased from HK$2 to HK$1 million.

21. INVESTMENT IN ASSOCIATES

Details of the Group's interests in associates is as follows:

	2010 HK$'000
Unlisted shares, at cost	3,919
Shares of other comprehensive income of associates	5,855
Share of post-acquisition loss of associates	(1,238)
	8,536

Details of the Company's associates as at 31 December 2010 are set out as follows:

Name of associate	Place of incorporation/ registration/ operations	Class of share held	Paid up registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2010 %	2009 %	2010 %	2009 %	
Powder Pharmaceutical Incorporated	The British Virgin Islands	Ordinary	US$50,000	–	–	25.36%	100%	Investment holding and trading of pharmaceutical Product *(Note 1)*
Powder Pharmaceutical Hong Kong Limited (formerly known as Lee's Ever Prosperous Pharmaceutical Technology Consulting Limited)	Hong Kong	Ordinary	HK$1	–	–	25.36%	100%	Research and development of pharmaceuticals

Notes:

1. On 8 January 2010, deemed disposal of Powder Pharmaceutical Incorporated was resulted upon issued of its capital to third parties, the equity interest held by Lee's Pharmaceutical Holding Limited was changed from 100% to 25.36%.

21. INVESTMENT IN ASSOCIATES *(continued)*

Summarised financial information in respect of the Group's associates is set out below:

	2010 HK$'000
Total assets	35,239
Total liabilities	(1,579)
Net assets	33,660
Group share of net assets of associates	8,536

	2010 HK$'000
Total revenue	–
Total loss for the year	(4,568)
Group's share of losses of associates	(1,159)
Group's share of other comprehensive losses of associates	–

22. INVENTORIES

	THE GROUP	
At cost	2010 HK$'000	2009 HK$'000
Raw materials	5,027	1,953
Work-in-progress	2,757	4,542
Finished goods	15,387	20,319
	23,171	26,814

Included above are raw materials which are carried at net realisable value of HK$Nil (2009: Nil) at 31 December 2010.

23. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 30–180 days to its trade customers. The fair value of the Group's trade receivables at 31 December 2010 approximate to the corresponding carrying amount.

The following is an aging analysis of trade receivables at 31 December 2010.

	THE GROUP	
	2010 HK$'000	2009 HK$'000
0–90 days	39,642	12,882
91–180 days	1,133	284
181–365 days	580	453
Over 365 days and under 3 years	360	214
	41,715	13,833
Less: Allowance for bad and doubtful debts	(650)	(441)
	41,065	13,392

Movement in allowance for bad and doubtful debts

	2010 HK$'000	2009 HK$'000
Balance at beginning of the year	441	294
Exchange rate adjustments	7	2
Provision for doubtful debts	202	145
Balance at the end of the year	650	441

24. BANK BALANCES/PLEDGED BANK DEPOSITS/TIME DEPOSITS

Bank balances carry interest at market rates which is 0.0052% to 0.1042% (2009: 0.019% to 0.209%) per annum. The pledged bank deposits carry interest rate of 0.1% (2009: 0.047%) per annum. The time deposits carry interest rate of 0.6% to 0.8% (2009: Nil) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2,000,499 (2009: HK$2,012,400) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

25. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2010 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2010.

	THE GROUP	
	2010 HK$'000	2009 HK$'000
0–90 days	357	1,634
91–180 days	45	–
181–365 days	71	8
Over 365 days	–	–
	473	1,642

Bills payable amounting to HK$1,402,000 is in European currency and due to be paid in February 2011.

26. BANK BORROWINGS

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Secured bank loans classified as current liabilities [1][2]	17,756	16,671

	2010 HK$'000	2009 HK$'000
Carrying amount of the borrowings are repayable: [3]		
Within one year	12,224	8,355
More than one year but not exceeding two years	2,176	2,784
More than two year but not exceeding five years	3,356	5,532
	17,756	16,671

Notes:

(1) Loan amounting to HK$5,900,000 is secured by lands and buildings whereas the loan amounting to HK$3,540,000 is secured by a non-refundable deposits of HK$94,400 paid to合肥信用擔保公司. They bear interest ranging from 5.31% to 5.84% (2009: 5.31%–6.7%) per annum.

The remaining of HK$8,315,560 represents bank borrowings under Special Loan Guarantee Scheme, Trade and Industry Department. They bear interest ranging from 4%-6% (2009: 4%–6%) per annum.

(2) As all the term loans include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause"), according to HK Int 5 which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Groups as current liabilities. The comparative figure was reclassified retrospectively.

(3) The table is prepared in accordance with the agreed repayment schedule of the term loans.

27. OBLIGATIONS UNDER FINANCE LEASE

The Group leased a motor vehicle under finance leases. The average lease term is 5 years (2009: 5 years). Interest rates underlying all obligations under finance leases are 8.08% (2009: 8.08%) per annum. These leases have no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Amounts payable under finance leases:				
Within one year	175	175	140	129
In the second to fifth year inclusive	395	570	360	500
	570	745	500	629
Less: Future finance charges	(70)	(116)	n/a	n/a
Present value of lease obligations	500	629	500	629
Less: Amount due for settlement within 12 months (shown under current liabilities)			(140)	(129)
Amounts due for settlement after 12 months			360	500

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

Finance lease obligations are denominated in Hong Kong dollars.

28. DEFERRED TAX LIABILITIES

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

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Intangible asset HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2009	–	1,235	572	1,807
Exchange difference	–	11	5	16
Charge (credit) to profit or loss	–	2,391	(53)	2,338
At 31 December 2009 and 1 January 2010	–	3,637	524	4,161
Exchange difference	–	65	18	83
Charge (credit) to profit or loss	312	4,483	(55)	4,740
At 31 December 2010	312	8,185	487	8,984

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each		Amount	
	2010	2009	2010 HK$'000	2009 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	450,112,437	415,275,000	22,506	20,764
Exercise of share options	720,000	4,564,000	36	228
Issue of ordinary shares	15,000,000	30,273,437	750	1,514
At end of the year	465,832,437	450,112,437	23,292	22,506

30. RESERVES

	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Retained profits (Accumulated losses) HK$'000	Total HK$'000
The Company					
At 1 January 2010	63,491	9,200	1,190	(13,238)	60,643
Employee share option benefits	–	–	850	–	850
Exercise of share options	237	–	(71)	–	166
Issue of new shares	39,415	–	–	–	39,415
2009 final dividend	–	–	–	(7,209)	(7,209)
2010 interim dividend	–	–	–	(4,508)	(4,508)
Net profit for the year	–	–	–	26,848	26,848
At 31 December 2010	103,143	9,200	1,969	1,893	116,205
At 1 January 2009	44,533	9,200	1,088	(9,903)	44,918
Employee share option benefits	–	–	325	–	325
Exercise of share options	1,235	–	(223)	–	1,012
Issue of new shares	17,723	–	–	–	17,723
2008 final dividend	–	–	–	(4,568)	(4,568)
2009 interim dividend	–	–	–	(3,586)	(3,586)
Net profit for the year	–	–	–	4,819	4,819
At 31 December 2009	63,491	9,200	1,190	(13,238)	60,643

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 41.

The Company's reserves available for distribution to shareholders as at 31 December 2010 was HK$116.21 million (2009: HK$60.64 million).

30. RESERVES *(continued)*

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

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

31. CAPITAL COMMITMENTS

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Capital commitments in respect of acquisition of:		
Intangible assets – license fee	29,066	–
Property, plant and equipment	7,232	730
	36,298	730

32. LEASE COMMITMENTS

	THE GROUP	
	2010 HK$'000	2009 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	3,183	2,669

32. LEASE COMMITMENTS *(continued)*

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

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	2,063	1,576
In more than one year but not exceeding five years	1,537	2,157
	3,600	3,733

33. 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 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 20,114,057 (2009: 14,694,057) representing 4.3% (2009: 3.4%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 10% of the shares of the Company in issue at the time of listing, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

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

33. SHARE OPTIONS SCHEME *(continued)*

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

Date of grant	Outstanding at 01.01.2010	Granted	During the year Exercised	Lapsed	Outstanding at 31.12.2010	Exercise period	Exercise price per share
Category I: Directors							
13.01.2003	2,890,000	–	–	–	2,890,000	13.07.2003-12.01.2013	HK$0.405
11.07.2005	800,000	–	–	–	800,000	11.01.2006-10.07.2015	HK$0.159
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
27.08.2009	448,057	–	–	–	448,057	27.02.2010-26.08.2019	HK$1.030
25.09.2009	896,000	–	–	–	896,000	25.03.2010-24.09.2019	HK$1.076
06.09.2010	–	450,000	–	–	450,000	06.03.2011-05.09.2020	HK$2.99
20.12.2010	–	1,230,000	–	–	1,230,000	20.06.2011-19.12.2020	HK$3.75
Category II: Employees							
13.01.2003	300,000	–	(150,000)	–	150,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	2,690,000	–	(450,000)	–	2,240,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	2,350,000	–	–	–	2,350,000	11.01.2006-10.07.2015	HK$0.159
02.01.2008	820,000	–	(120,000)	–	700,000	02.07.2008-01.01.2018	HK$0.492
12.01.2010	–	4,210,000	–	–	4,210,000	12.07.2010-11.01.2020	HK$2.2
Category III: Consultant							
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
02.01.2008	2,000,000	–	–	–	2,000,000	02.07.2008-01.01.2018	HK$0.492
26.11.2008	500,000	–	–	–	500,000	26.05.2009-25.11.2018	HK$0.383
20.12.2010	–	250,000	–	–	250,000	20.06.2011-19.12.2020	HK$3.75
	14,694,057	6,140,000	(720,000)	–	20,114,057		

33. SHARE OPTIONS SCHEME *(continued)*

Particulars of share options:

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

33. SHARE OPTIONS SCHEME *(continued)*

Date of Grant	Exercise period	Exercise price per share HK$
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010 – 25.11.2018	
27.08.2009	(i) 50% exercisable not less than 6 months but not more than ten years from the date of grant, i.e. from 27.02.2010 to 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	1.030
25.09.2009	(i) 50% exercisable not less than 6 months but not more than ten years from the date of grant, i.e. from 25.03.2010 to 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. from 25.12.2010 to 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	2.200
06.09.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011 – 05.09.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011 – 05.09.2020	2.990
20.12.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011 – 19.12.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012 – 19.12.2020	3.750

33. SHARE OPTIONS SCHEME *(continued)*

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

	Outstanding at 01.01.2010	Granted	During the year Exercised	Lapsed	Outstanding at 31.12.2010
Directors					
Lee Siu Fong	448,000	465,000	–	–	913,000
Leelalertsuphakun Wanee	448,057	450,000	–	–	898,057
Li Xiaoyi	3,338,000	465,000	–	–	3,803,000
Lam Yat Cheong	300,000	–	–	–	300,000
Mauro Bove	1,000,000	300,000	–	–	1,300,000
Directors' total	5,534,057	1,680,000	–	–	7,214,057
Employees	6,160,000	4,210,000	(720,000)	–	9,650,000
Consultant	3,000,000	250,000	–	–	3,250,000
Grand total	14,694,057	6,140,000	(720,000)	–	20,114,057

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

33. SHARE OPTIONS SCHEME *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 12 January 2010 was HK$4,740,460, 6 September 2010 was HK$1,125,000 and 20 December 2010 was HK$3,552,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility range of 66.43 to 132.38 per cent;

2. expected annual dividend yield range of 1.43 to 3.17 per cent;

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

4. the quoted interest rate for the Exchange Fund Notes with maturity in 2019 were 2.887 per cent, 1.995 per cent and 2.886 per cent respectively which are adopted to calculate the fair value of options granted on 12 January 2010, 6 September 2010 and 20 December 2010.

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

34. PLEDGED OF ASSETS

At 31 December 2010, the Group has pledged leasehold land and building with an aggregate amount of HK$8,678,271 (2009: HK$9,284,721), and pledged bank deposit of HK$2,000,000 (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$664,400 (2009:HK$ 745,755).

35. RELATED PARTIES TRANSACTIONS

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

Name of related parties	*Note*	Nature of transactions	2010 HK$'000	2009 HK$'000
Sigma-Tau Group	(a)	Purchase of pharmaceutical product	14,675	27,842

Note:

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

36. DEEMED DISPOSAL OF A SUBSIDIARY

In prior year, the Group held 100% in Powder Pharmaceutical Incorporated and accounted for the investment as a subsidiary. In 2010, the group has deemed disposal of a subsidiary and retained the 25.36% interest.

Analysis of asset and liabilities over which control was lost

	2010 HK$'000
Non-current assets	
Property, plant and equipment	292
Intangible assets	21,433
	21,725
Current assets	
Inventories	609
Other receivables	16
Cash and bank balances	2
	627
Current liabilities	
Amount due to ultimate holding company	2,599
Other payables	20,066
	22,665
Net current liabilities	(22,038)
Net liabilities	(313)

36. DEEMED DISPOSAL OF A SUBSIDIARY *(continued)*

Gain on deemed disposal of a subsidiary

	2010 HK$'000
Fair value of investment retained (25.36%)	3,839
Carrying value of 100% investment on the date of loss of control	(3,605)
Gain on disposal	234

Net cash outflow on deemed disposal of a subsidiary

	2010 HK$'000
Consideration received in cash and cash equivalents	–
Less: cash and cash equivalent balance disposed of	(2)
	(2)

37. NON-CONTROLLING INTERESTS

Non controlling interests as at 31 December

	2010 HK$'000
33% of registered capital	380
Share of loss for the year	(104)
Share of exchange reserve on consolidation	8
Balance of non-controlling interests as at 31 December	284

In July 2010, the Group has set up a company in PRC named as 廣州兆科聯發醫藥有限公司 and holds 67% of the shares.

37. NON-CONTROLLING INTERESTS *(continued)*

Transaction with non-controlling interests

There were no transactions with non-controlling interests in 2010.

38. RETIREMENT BENEFITS SCHEME

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

The total cost charged to income of HK$129,503 (2009: HK$154,633) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2010, contributions of HK$28,346 (2009: HK$29,100) due in respect of the reporting period had not been paid over to the schemes.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited (the "**Company**") will be held at Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Thursday, 12 May 2011 at 3:00 p.m. for the following purposes:

As ordinary business:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2010.

2. To declare the final dividend for the year ended 31 December 2010.

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

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

As special business:

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

   A. "**THAT**

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

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

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

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

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

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

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by its memorandum and articles of association of the Company or any applicable laws and regulations of the Cayman Islands to be held; or

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

B. "**THAT**

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

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

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by its memorandum and articles of association or any applicable laws and regulations of the Cayman Islands to be held; or

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

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

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

Hong Kong, 21 March 2011

NOTICE OF ANNUAL GENERAL MEETING

Notes:

(1) The register of members of the Company will be closed from Friday, 6 May 2011 to Thursday, 12 May 2011 (both days inclusive). In order to qualify for the right to attend and vote at the above meeting, and to qualify for the proposed final dividend for the year ended 31 December 2010, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 5 May 2011.

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

(3) A form of proxy for use at the above meeting is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.

(4) A circular containing further details regarding items 3 and 5 as required by the Rules Governing the Listing of Securities on the Stock Exchange will be despatched to shareholders of the Company together with 2010 Annual Report.