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)

10th Year Annual Report 2011

* For identification purpose only

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 Mallesons (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 18 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 eleven 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, Japanese and European companies. The mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

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

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

	Country of origin	Market PRC	Market Hong Kong	Medical application
Proprietary products:				
*Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		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
Gaslon N®	Japan	✓		Gastric Ulcer and Gastritis
Brio PTCA Balloon Catheter	Italy	✓		PTCA treatment for cardiovascular disease

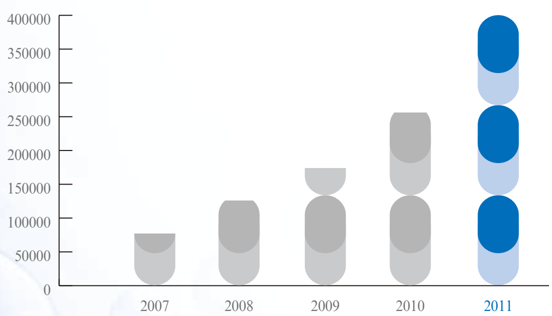
* *In the National Drug Reimbursement List of the PRC*

FINANCIAL HIGHLIGHTS

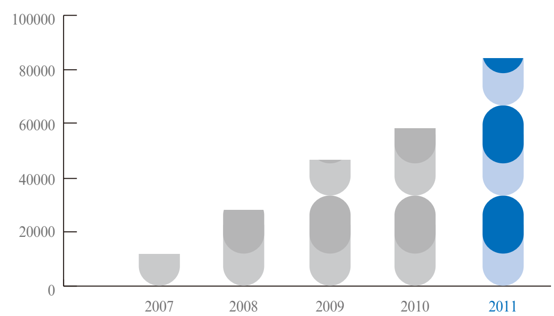
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**399,685**	255,810	173,837	125,421	76,712
Profit attributable to shareholders	**83,906**	58,026	46,369	28,060	11,370
Equity attributable to shareholders of the Company	**311,914**	241,064	144,730	85,335	60,825
	HK cents	HK cents	HK cents	HK cents	HK cents
Basic earnings per share	**17.90**	12.8	10.85	6.77	3.11
Interim dividend per share	**1.2**	1.0	0.8	0.5	–
Final dividend per share	**3.0**	2.0	1.6	1.1	0.8
	4.2	3.0	2.4	1.6	0.8
Dividend payout ratio	**23.5%**	23.4%	22.1%	23.6%	25.7%

TURNOVER OF THE GROUP (HK$'000)



PROFIT ATTRIBUTABLE TO SHAREHOLDERS (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				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Turnover	399,685	255,810	173,837	125,421	76,712
Cost of sales	(107,852)	(77,320)	(49,262)	(36,779)	(25,719)
Gross profit	291,833	178,490	124,575	88,642	50,993
Other revenue	12,322	5,770	4,911	1,482	973
Selling and distribution expenses	(156,437)	(79,193)	(47,842)	(36,983)	(22,597)
Research and development expenses	(11,835)	(5,590)	(5,686)	(2,101)	(1,499)
Administrative expenses	(37,090)	(29,299)	(22,486)	(19,954)	(14,192)
Profit from operations	98,793	70,178	53,472	31,086	13,678
Share of results of associates	(273)	(1,159)	–	–	–
Finance costs	(768)	(1,058)	(689)	(505)	(890)
Profit before taxation	97,752	67,961	52,783	30,581	12,788
Taxation	(13,728)	(10,039)	(6,414)	(2,521)	(1,418)
Profit for the year	84,024	57,922	46,369	28,060	11,370
Attributable to:					
Shareholders of the Company	83,906	58,026	46,369	28,060	11,370
Non-controlling interests	118	(104)	–	–	–
	84,024	57,922	46,369	28,060	11,370

FINANCIAL POSITION

	31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Non-current assets	154,179	105,343	89,515	51,236	38,165
Current assets	255,897	206,370	119,051	56,674	48,433
Current liabilities	(83,497)	(61,021)	(59,175)	(20,768)	(24,252)
Net current assets	172,400	145,349	59,876	35,906	24,181
Non-current liabilities	(14,248)	(9,344)	(4,661)	(1,807)	(1,521)
Net assets	312,331	241,348	144,730	85,335	60,825
Equity attributable to shareholders of the Company	311,914	241,064	144,730	85,335	60,825
Non-controlling interests	417	284	–	–	–
	312,331	241,348	144,730	85,335	60,825

CHAIRMAN'S STATEMENT

With much delight, I proudly present you the tenth annual report of the Group in celebration of the 10th anniversary of its listing on The Stock Exchange of Hong Kong. During the last ten years, the Group has trodden a journey filled with excitement and satisfactions. With the support of our shareholders and arduous strikes of our management team and staff, we have completed the transformation of the company from a development start-up company to a fully integrated pharmaceutical company in China.

Founded in 1994 in a university lab, the Group got its listing on the Growth Enterprise Market of The Hong Kong Stock Exchange in July 2002 with a market capitalization of HK$100 million only. Today, the Group is Main Board listed company with a market capitalization of over HK$1,300 million and operations spread throughout mainland China and Hong Kong. The number of employees has increased from early day of 103 to today's 498, who are engaging in research and development, manufacturing, marketing and sales of innovative pharmaceuticals and medical device.

Over the ten year span, number of products launched into the market by the Group has increased from 2 to 13, propelling a leap of nearly 40 times in its revenue to reach a new height of HK$399,685,000 in 2011. The Group has also turned around from a money losing entity, achieving consecutive profit growth of more than 30% for the last five years with HK$83,906,000 net profit attributable to shareholders in 2011. The stellar performance of the Group in achieving growth in revenue and profit had been recognized by Forbes Asia which selected the Group as one of the best 200 companies under a billion in Asia-Pacific areas in 2011.

During the period, the Group has also evolved from local focused to global collaboration and cooperation, complementing the internal research and development capability with 18 international partnerships. At present, the Group has built a robust pipeline of 30 products that are under different development stages and are stemmed from both internal R&D as well as from the acquisition of licensing and distribution rights from various US, Japanese and European companies. The key areas of the Group have also been expanded beyond cardiovascular with products launched or under development targeting realms of oncology, gynecology and dermatology. Today, the Group has become one of the few true specialty pharmaceutical companies in China.

CHAIRMAN'S STATEMENT

The construction of new factory located in Nansha, Guangzhou will commence in March this year. The new facility will provide additional 25,000 square meters of production areas to the Group, up significantly from today's 3,000 square meter only. Furthermore, a new manufacturing facility with an area of 6,000 square meter will be erected in Hefei later this year. Both new facilities will be designed according not only to the new cGMP standard of China SFDA, but also to the requirements of US FDA and European Union. The availability of the new production facilities will considerably enhance the Group's production capability and capacity, allowing the Group to produce pharmaceutical products for the markets beyond China.

The last ten year has been very eventful for the Group and many good deeds have been done to lay an unadulterated foundation for a sustainable growth in future. Looking ahead to the next ten year, we are committed to continue building shareholders value. Benefiting from expansion of healthcare coverage by the government in the PRC, and launch of more products in the coming year, the board is confident that the growth momentum of the Group can be maintained and satisfactory return can be delivered to the shareholders.

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 contribution, and our customers, banks, suppliers, shareholders and partners for their continuing support.

Lee Siu Fong
Chairman

Hong Kong, 21 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Despite the challenging environment faced by pharmaceutical industry in the PRC, the Group has not only managed to accelerate the growth momentum for the year 2011 by achieving significant uplift in both turnover and net profit over last year, but has also developed a platform to rocket the Group onto new growth trajectory by making ready a series of products to be launched in the coming year.

Turnover and Profit

The fourth quarter of 2011 ended in a high note with turnover and net profit increased by 23% and 14% respectively over the third quarter. Turnover for the year ended 31 December 2011 increased by 56.2% compared with last year and attained a new height of HK$399,685,000. The significant boost in sales was primary thrusted by *Carnitene®* and *Slounase®*, newly entrants of national pharmaceutical reimbursement list and sales of both products were surged by 91% and 66% respectively compared with that of last year. Other main products such as *Yallaferon®*, *Ferplex®* and *Zanidip®* also performed resiliently with growth of 36%, 68% and 119% respectively compared with that of last year.

The net profit attributable to shareholders for the year 2011 reached a new level of HK$83,906,000, representing an increase of 44.6% over last year. The converge of top line and bottom line growth is a testament of efforts made by the management in second half of year to control the selling expenses and to improve operating efficiency and effectiveness of the Group's sales and marketing organization while accelerating the growth in sales. The selling expenses to turnover ratio for the fourth quarter of 2011 dropped significantly to 33.5% compared with the ratio of 39.8% for the third quarter and 43.9% for the second quarter.

Manufacturing facility

In July last year, the Group purchased an industry estate located at Nansha, Guangzhou to cope with the expansion need. A total floor area of 57,000 square meters will be built with approximately 25,000 square meter dedicated to manufacturing. The investment will be approximately RMB 100 million and construction work will commence in March this year. The erection of the facility will significantly augment the Group's production capability and capacity.

In addition, to meet the new cGMP requirements in the PRC, a new production facility will be built on the existing site of Zhaoke (Hefei) and the construction work will also commence soon. The total new production area will be approximately 6,000 square meters that will provide flexibility for the Group in manufacturing opportunity in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Both facilities will be designed according not only to China cGMP standard, but also to the requirements of US FDA and European Union, enabling the Group to supply finished products to countries and areas beyond China in the future.

Drug development

The Group continued its aggressiveness in investing into the future by pouring substantial resources into drug development in order to expedite the launch of new product and to enhance its growth sustainability.

The phase I study for the Group's proprietary, first-in-class anti-platelet 1b antagonist *Declotana*® was successfully concluded in April 2011. The results showed that *Declotana*® possesses the characteristics of so called "ideal" anti-platelet drug with fast onset time, good reversibility and low bleeding risk. The proof-of concept phase II study for acute coronary syndromes has been prepared and should be initiated soon. This eminent study is led by Beijing University First Affiliated Hospital with the participation of Shanghai Zhongshan Hospital, People's Liberation Army General Hosptial, Guangzhou Military General Hospital and Wuhan Union Hospital. Should *Declotana*®'s efficacy be demonstrated in the study, it could change the paradigm of managing patients suffered from acute coronary syndromes and fulfill a significant unmet medical need.

In addition, clinical study applications for both ZK007 for Dry eye and ZK008 for Acne have been submitted to China SFDA in the first quarter of 2011. Both drugs have proprietary formulation and are originated from the Group's in-house research and development programs. ZK008 for Acne has recently been reviewed by external panel organized by China SFDA and the Group is expected to receive positive feedback soon.

Several other submissions aimed at better life cycle management of the existing products have also been made in the first quarter and are now under review by China SFDA. Those efforts could yield significant long term benefit to the existing products and enhance greatly their competitiveness in the market place.

During the period, the Group received approval to carry out registration clinical study for Tradozone, an anti-depression drug in licensed from Angelini of Italy. The study involves 15 sites that will enroll a total of 378 patients. The study has since started and progressed smoothly. The enrollment is targeted to complete by end of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

In the second quarter of 2011, the Group successfully completed the registration clinical study in China on Apogepha's original product, *Mictonorm® XL*, for evaluating the effectiveness and safety for treatment in Chinese patients with urinary incontinence. The primary endpoint of the study has been met and the results have shown that *Mictonorm®* is safe and effective for Chinese urinary incontinence patients. Urinary continence could seriously affect patients' social lives and the severity is yet to be fully recognized. Recent improvement in education and advancement in diagnosis have resulted in increasing patients' awareness. Better medicine is needed for better treatment of this nuisance.

During the period under review, the Group completed the pivotal phase III registration study for Acetyl-L-Carnitine in treatment of chemo-induced peripheral neuropathy (CIPN). The primary endpoint of study has been met and the results are robust with excellent safety profile. CIPN is a serious medical problem affecting considerable number of cancer patients. As to date, no drug has been approved for this indication and significant medical need remains unmet. With its strong efficacious profile in treatment of CIPN demonstrated in the study, the approval of Acetyl-L-Carnitine could position the Group well in the cancer supporting care area.

In addition, two collaborated research and development projects that focused on the Group's proprietary anti-angiogenesis protein ZK002 with Baptist University of Hong Kong and Hong Kong University of Science and Technology have been selected by Hong Kong Government Innovation and Technology Fund as recipients of grant support. This is a testament of Group's research and development capacity and capability. It also highlights the commitment of the Group to collaborate and cooperate with local research universities for advancement of science and innovation.

The Group also expects to start patient enrollment with Queen Mary Hospital of University of Hong Kong for the global phase IIb study for JX-594 in treatment of late stage liver cancer. JX-594 is a proprietary, engineered oncolytic virus that is designed to selectively target and destroy cancer cells. The product, developed by Jenerex and its partners, is in phase II study in advanced liver cancer. The latest results presented in American Association for the Study of Liver Diseases 2011 showed that high dose of JX-594 significantly improves survival of advanced liver cancer patients compared to the low dose JX-594 (medium survival 13.8 months vs 6.7 months). The Group is a development and marketing partner of Jenerex for JX-594 in China. The Group intends to allocate more resource to accelerate the development of JX-594 in China where the market potential is enormous.

MANAGEMENT DISCUSSION AND ANALYSIS

Imported products registration

In June 2011, the Group has successfully submitted the application for new drug registration in China on Apogepha's original product, *Mictonorm® XL*. The product is indicated for urinary incontinence that has become more prevalent in recent years due to increase of awareness.

In September last year, the Group has successfully submitted the application for new drug registration in China on United Therapeutics' product, *Remodulin®* (treprostinil) injection. *Remodulin®* is a proprietary product indicated for treatment of pulmonary arterial hypertension (PAH) in patients with NYHA Class II-IV symptoms by intravenous and subcutaneous administration. PAH has emerged as a severe life-threatening disease in the PRC, affecting scores of patients with poor prognosis.

The Group has also successfully submitted application for New Drug Registration in PRC for the license-in drug *Natulan®*, for the treatment of Hodgkin's lymphoma and certain brain cancers under fast track designation. The priority review could allow the review process to be finished in 12 to 15 months.

To expand the Group's cancer supporting care franchise, the Group has successfully submitted the application of clinical study to China SFDA during the quarter for *Aloxi®* i.v. and oral formation. *Aloxi®* is the only second generation of 5HT3 antagonist available in the market place and is a leading anti-emetic drug licensed from Helsinn of Switzerland.

Further to the successful conclusion of the Group's ALC registration study in September 2011, the Group has also filed the application for marketing to the China SFDA in December 2011. Currently, there is not any drug approved by the China SFDA for the treatment of chemo-induced peripheral neuropathy. As the Group's first drug in the oncology space, ALC could be in an ideal position to make headway in establishing oncology franchise for the Group.

International partnerships

The Group had also reached important milestones in international partnership during the year 2011. It has participated in United Therapeutics' global pivotal phase III study for oral Treprostinil. UT-15C study ("Freedom-C") is a randomized, double blinded, placebo controlled, multicentre phase III study. It involves over thirty centers in US, Europe, Central America, India and China. The Group had been able to assist United Therapeutics to secure approval from China SFDA for this international phase III study in an expedited way. It also coordinated the efforts of three study sites in China, resulting in completion of enrollment within the set schedule. The study results have been announced and the positive outcome should facilitate the marketing approval of oral treprostinil by the US FDA.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and marketing

In 2011, the Group had also accomplished its task of creating a direct sales force organization. Within 12 months, strong infrastructure with 200 sales representatives has been put into place, covering 25 most populated and economically important cities in China. Although the initial investment had transient impact on the Group's profitability in the first half of year 2011 as administration cost and sales and marketing spending climbed substantially, the sales and marketing spending have since been subdued. The Group's direct sales organization has entered into the consolidation phase after the initial 12 month build-up and the contribution of the direct sales organization to the growth of turnover of the Group has become more prominent. Overall, the sales of the Group's direct sales organization increased 61% in 2011 over 2010. The directors believes that the "hybrid engine model" of combining extensive distributor network with an agile direct sales force would be instrumental for maintaining sustainable growth of both turnover and profitability for the Group in the future.

2011 was also the year that the Group continued to invest in knowledge-based promotion and scientific marketing. It had actively participated in many major conferences such as "Southern Cardiovascular Conference", "Oriental Cardiovascular Conference", "Great Wall Cardiovascular Conference", "National Cardiology Conference", "National Nephrology Conference", "National Gynecology Conference" and "National Dermatology Conference". The consistency in the Group's presentation to the medical community has helped to foster strong key opinion leader network across the key areas of the Group.

Evidence-based medicine is the key driver of prescription today in China and the Group has pursued relentlessly clinical evidence and knowledge by investing in clinical studies of its launched products. The recent completed *Yallaferon*®study has yielded very encourage results. The study was aimed at the effect of *Yallaferon*® treatment in converting the positive HPV infection to negative. HPV infection has been confirmed to be associated with cervical cancer and the available vaccine can only deal with person who is yet infected with HPV. The preliminary data showed that *Yallaferon*® treatment is effective in 65% of patients for the HPV conversion and there is statistically significant difference between *Yallaferon*® treatment and control. This is the first time that a medication has been shown to be able to reverse the HPV infection in women. The Group is contemplating a full scale study that would allow the Group to secure new indication approval from China SFDA.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2011 was HK$399,685,000, representing increase of HK$143,875,000 or 56.2% over last year. The growth was mainly contributed by *Carnitene*®, *Slounase*® and *Ferplex*® with sales increased by 91%, 66% and 68% respectively for the year 2011. *Zanidip*®, which was launched in the second quarter of 2010 also saw a significant growth of over 119% over last year.

Profit attributable to shareholders reached HK$83,906,000 for the year 2011, an increase of 44.6% compared with last year.

Gross Profit Margin

Gross profit margin for the year 2011 was 73%, represented an increase of 3.2 percentage point compared with gross profit margin of 69.8% for last year.

The increase in sales of proprietary products, decrease in raw material cost for *Livaracine*®, decrease in purchase cost of *Carnitene*® and economy of scale in production all contributed to the persistent improvement in gross profit margin.

Administrative Expenses

The increase in administrative expenses for the year 2011 was in line with increase in sales transactions.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the year 2011 was 39%, represented an increase of 8 percentage points compared with 31% for that of previous year. The establishment of direct sales force and marketing efforts for the launch of new products such as *Zanidip*® caused the increase. With more control on the selling and distribution expenses, the ratio dropped to 33.5% for the fourth quarter of 2011.

Liquidity and Financial Resources

As at 31 December 2011, the Group had cash and bank balances and pledged bank deposits of approximately HK$136 million (31 December 2010: HK$122 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 3.06 times (31 December 2010: 3.38 times). As at 31 December 2011, the Group had bank and other borrowings of approximately HK$17.16 million and equity attributable to shareholders of the Company of approximately HK$311.9 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to equity attributable to shareholders of the Company, was nil as at 31 December 2011 and 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

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, Japanese Yen 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 2011, the Group has pledged leasehold land and building with an aggregate amount of HK$Nil (31 December 2010: HK$8,678,271) to secure general banking facilities granted to the Group. Motor vehicle with carrying value of HK$1,731,256 (31 December 2010: HK$664,400) was held under finance leases.

In addition, time deposits of HK$2,002,951 were pledged as securities for banking facilities as at 31 December 2011 (31 December 2010: HK$2,000,499).

Contingent Liabilities

As at 31 December 2011, the Group had no contingent liabilities.

Employee Information

As at 31 December 2011, the Group had 498 employees (2010: 440 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$58.01 million (2010: HK$37.15 million).

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The directors remain optimistic on the prospects of the Group. However, we need to be vigilant to the external environment and be prepared for the challenge ahead. The magnitude of potential price adjustment is yet to be determined. The implementation of new cGMP requirements will be a test to our readiness. But one thing is certain that the Group is in an excellent position to rise above those challenges.

The expansion of healthcare coverage by the Chinese government and double digit increase in healthcare spending will continue to fuel the demand and steer the growth in pharmaceutical industry. The Group's existing five major products are expected to benefit from the market expansion, maintaining the fast pace of growth. The persistent improvement in operating efficiency and effectiveness of the Group's sales and marketing organization will further boost the competitiveness of its products in the market place, enlarging their market shares and enhancing profitability.

The recent launch of two new license-in products, Brio PTCA Balloon Catheters for the treatment of acute coronary syndrome and *Gaslon N*® for the treatment of gastric ulcer have been participated in several tenders. Their contribution will be seen gradually in the next few quarters. Together with the newly approved product *Hyalofemme*®, these new products will serve as catalyst of growth and create constant excitement in the market place for the Group's product. Several new products are also expected to be approved in 2012, making the Group better equipped to compete in the market place.

The planned enrollment for phase II study of both JX-594 and *Declotana*® in first half of 2012 would be a significant milestone for the Group. This effort could be revolutionary and may elevate the Group's to a new playing field, paving way for long term growth of the Group.

With our staff's diligence and our management's readiness, we are confident that we will meet the challenge head on and march on to deliver superb return to our shareholders.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 55

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 & member of remuneration committee, 58

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, 49, 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, *57*

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 at 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 & member of remuneration committee, 49, 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, 50, 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 24 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, chairman of remuneration committee and member of audit committee, 53, 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Wang Xian Shun

Chief engineer, 75, 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, 53

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 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 21 to the consolidated 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 38.

An interim dividend of HK$0.012 (2010: HK$0.01) per share, amounting to HK$5,635,000 was paid to shareholders on 13 October 2011.

The Board of Directors recommended a final dividend of HK$0.03 (2010: HK$0.02) per share to shareholders registered in the Company's Register of Members as at the close of business on 24 May 2012. Upon approval by shareholders, the final dividend will be paid on or about 14 June 2012.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated 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 17 to the consolidated 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 32 and 39 respectively to the consolidated financial statements.

REPORT OF THE DIRECTORS

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$276,700 (2010: HK$312,000).

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 34 to the consolidated financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$130.48 million. This includes the Company's share premium in the amount of HK$105.53 million at 31 December 2011, 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 20.22% in aggregate for the Group's total turnover for the year (2010: 16.0%).

Purchase from the Group's five largest suppliers accounted for approximately 86.32% in aggregate for the Group's total purchases for the year (2010: 82.14%). The largest supplier of the Group accounted for approximately 42.57% of the Group's total purchases (2010: 22.44%).

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, Dr. Li Xiaoyi, Mr. Mauro Bove and Mr. Lam Yat Cheong will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun) 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. In accordance with the supplemental agreements dated 1 January 2012, monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$144,837 and HK$199,300 respectively.

Dr. Li Xiaoyi ("Dr. Li") has service contract with the Company since 1 September 2003 and after that the contract has been renewed. In accordance with the fifth supplemental agreement dated 1 January 2012, monthly salaries and allowance has been revised to HK$275,290. 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 and Ms. Leelalertsuphakun 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.

Executive directors of the Company are Ms. Lee, Ms. Leelalertsuphakun and Dr. Li. In accordance with supplementary agreement dated 1 January 2012 signed between the Company and each of the executive directors, employment terms of executive directors have been revised as follows:–

1. Executive directors are entitled to annual management bonus 1.5% to 3.5% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. Such sum of the management bonus will be shared between all the executive directors in such proportion with reference to their monthly salary in the final month of the complete financial year.

2. The annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

REPORT OF THE DIRECTORS

3. Each of executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Company for certain years.

Each of Mr. Lam Yat Cheong ("**Mr. Lam**") and Dr. Tsim Wah Keung, Karl ("**Dr. Tsim**") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive director. Contract with Mr. Lam and Dr. Tsim has been renewed for three years from 1 July 2010 and 20 September 2010 respectively. 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 from 3 January 2009 and the contract has been renewed for three years from 3 January 2012. Director's fee has been increased from HK$75,000 per annum to HK$100,000 per annum in accordance with the new contract and bonus will not be paid.

REPORT OF THE DIRECTORS

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 2011 were as follows:

		Number of share options				
Grantees	Date of Grant	Outstanding at 1.1.2011	Granted	Exercised	Cancelled	Outstanding at 31.12.2011
Directors						
Lee Siu Fong	25.09.2009	448,000	–	–	–	448,000
	20.12.2010	465,000	–	–	–	465,000
	20.12.2011	–	469,000	–	–	469,000
Leelalertsuphakun Wanee	27.08.2009	448,057	–	(448,000)	(57)	–
	06.09.2010	450,000	–	–	–	450,000
	07.10.2011	–	469,000	–	–	469,000
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
	20.12.2011	–	469,000	–	–	469,000
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		7,214,057	1,407,000	(3,638,000)	(57)	4,983,000
Employees	13.01.2003	150,000	–	–	–	150,000
	25.06.2004	2,240,000	–	(80,000)	–	2,160,000
	11.07.2005	2,350,000	–	–	–	2,350,000
	02.01.2008	700,000	–	(180,000)	–	520,000
	12.01.2010	4,210,000	–	(40,000)	–	4,170,000
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		12,900,000	–	(300,000)	–	12,600,000
Grand total		**20,114,057**	**1,407,000**	**(3,938,000)**	**(57)**	**17,583,000**

REPORT OF THE DIRECTORS

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	1.030

REPORT OF THE DIRECTORS

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 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.12.2010-24.09.2019	1.076
12.01.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	2.200
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
07.10.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	2.526
20.12.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	2.666

Save as disclosed above, as at 31 December 2011 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 2011, 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		1,109,375		
	Interest of corporation	(i)	124,690,625	125,800,000	26.78
Leelalertsuphakun Wanee	Beneficial owner		622,000		
	Interest of corporation	(i)	124,690,625	125,312,625	26.68
Li Xiaoyi	Beneficial owner		38,155,000		
	Interest of spouse	(ii)	16,000,000	54,155,000	11.53
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.25
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.06
Lam Yat Cheong	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.

REPORT OF THE DIRECTORS

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,382,000	1,382,000
Leelalertsuphakun Wanee	Beneficial owner	919,000	919,000
Li Xiaoyi	Beneficial owner	1,382,000	1,382,000
Mauro Bove	Beneficial owner	1,300,000	1,300,000
		4,983,000	4,983,000

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	125,800,000	1,382,000	127,182,000
Leelalertsuphakun Wanee	125,312,625	919,000	126,231,625
Li Xiaoyi	54,155,000	1,382,000	55,537,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung, Karl	300,000	–	300,000
Lam Yat Cheong	300,000	–	300,000
Mauro Bove	–	1,300,000	1,300,000

2. *Short positions*

No short positions of directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the year ended 31 December 2011 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.

REPORT OF THE DIRECTORS

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2011, 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	25.61
Defiante Farmaceutica, S.A.	Beneficial owner	(i)	132,350,000	28.17
High Knowledge Investments Limited	Beneficial owner	(ii)	16,000,000	3.41
Lue Shuk Ping, Vicky	Interest in corporation	(ii)	16,000,000	3.41
	Interest of spouse	(iii)	38,155,000	8.12

(b) Underlying shares

Name	Capacity and nature	*Notes*	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(iii)	Share Options	1,382,000

(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	54,155,000	1,382,000	55,537,000

REPORT OF THE DIRECTORS

Notes:

(i) Anna Atti, Enrico Cavazza, Francesca Cavazza, Silvia Cavazza and Martina Cavazza jointly have interest in 134,350,000 shares of the Company, of which 132,350,000 shares are held by Defiante Farmaceutica, S.A.

Paolo Cavazza has interest in 132,350,000 shares of the Company which are held by Defiante Farmaceutica, S.A.

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

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

2. *Short positions*

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

Save as disclosed above, as at 31 December 2011, 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 2011 would not exceed HK$69,435,011.

For the year ended 31 December 2011, sales of *Carnitene*® and other pharmaceutical products to the Company by the Sigma-Tau Group amounted to HK$43,059,799.

REPORT OF THE DIRECTORS

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 2011 (2010: 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. With effect from January 2012, executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if they have engaged in continuous service with the Company for certain years.

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 2011.

AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2011 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 2012

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 2011, 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. In compliance with the revised Listing Rules, a remuneration committee has been established in 2012. Dr Tsim Wah Keung, Karl is the chairman of the committee; Ms. Leelalertsuphakun Wanee and Dr. Chan Yau Ching, Bob are the members of the committee.

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2011, 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 2011 except that there was late filing of disclosure form for securities transaction made by one director of the Company.

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 2011, 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	6/13	46%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	10/13	77%
Lam Yat Cheong	13/13	100%
Tsim Wah Keung, Karl	9/13	69%

CORPORATE GOVERNANCE REPORT

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. With effect from 2012, a remuneration committee has been established with term of reference in compliance with the Listing Rules.

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 3.21 of the Main Board Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (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.

CORPORATE GOVERNANCE REPORT

In the financial year ended 31 December 2011, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditors and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

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

INTERNAL CONTROL

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

For the year ended 31 December 2011, 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 2011, all the remuneration paid to the Company's auditors HLM & Co. of amount HK$601,000 was audit services fee.

INDEPENDENT AUDITORS' REPORT

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

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

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 125, which comprise the consolidated and Company's statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as directors determines is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely 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 about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

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 of the consolidated financial statements that give a true and fair view 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 2011, and of its 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 2012

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	5	399,685	255,810
Cost of sales		(107,852)	(77,320)
Gross profit		291,833	178,490
Other revenue	8	5,881	5,536
Gain on deemed disposal of a subsidiary		–	234
Gain on deemed disposal of associates	9	6,441	–
Selling and distribution expenses		(156,437)	(79,193)
Research and development expenses		(11,835)	(5,590)
Administrative expenses		(37,090)	(29,299)
Profit from operations	10	98,793	70,178
Share of results of associates		(273)	(1,159)
Finance costs	11	(768)	(1,058)
Profit before taxation		97,752	67,961
Taxation	14	(13,728)	(10,039)
Profit for the year		84,024	57,922
Attributable to:			
Shareholders of the Company		83,906	58,026
Non-controlling interests		118	(104)
		84,024	57,922
Dividends	15	19,728	13,825
		HK cents	HK cents
Earnings per share			
Basic	16	17.90	12.80
Diluted	16	17.53	12.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	84,024	57,922
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	4,613	2,832
– revaluation of overseas buildings	162	129
Share of other comprehensive income of associates	–	5,855
Release of share of other reserves of associates	(5,855)	–
Other comprehensive (expenses) income for the year, net of tax	(1,080)	8,816
Total comprehensive income for the year	82,944	66,738
Total comprehensive income attributable to:		
Shareholders of the Company	82,811	66,834
Non-controlling interests	133	(96)
	82,944	66,738

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current Assets			
Property, plant and equipment	17	47,303	26,880
Intangible assets	18	87,297	64,792
Lease premium for land	19	7,514	1,235
Goodwill	20	3,900	3,900
Investment in associates	22	–	8,536
Available-for-sale financial asset	23	8,165	–
		154,179	105,343
Current Assets			
Lease premium for land	19	164	34
Inventories	24	35,004	23,171
Trade receivables	25	58,342	41,065
Other receivables, deposits and prepayments		25,890	19,996
Pledged bank deposits	26	2,003	2,000
Time deposits	26	40,896	54,517
Cash and bank balances	26	93,598	65,587
		255,897	206,370
Current Liabilities			
Trade payables	27	9,105	473
Bills payable		–	1,402
Other payables		46,866	38,340
Derivative financial instrument	28	136	–
Bank borrowings	29	17,160	17,756
Obligations under finance leases	30	522	140
Tax payable		9,708	2,910
		83,497	61,021
Net Current Assets		172,400	145,349
Total Assets less Current Liabilities		326,579	250,692

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and Reserves			
Share capital	32	23,489	23,292
Reserves		288,425	217,772
Equity attributable to shareholders of the Company		311,914	241,064
Non-controlling interests	33	417	284
Total equity		312,331	241,348
Non-current Liabilities			
Deferred tax liabilities	31	13,379	8,984
Obligations under finance leases	30	869	360
		14,248	9,344
		326,579	250,692

The financial statements on pages 38 to 125 were approved and authorised for issue by the Board of Directors on 21 March 2012 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current Assets			
Intangible assets	18	3,840	3,840
Interests in subsidiaries	21	120,491	95,133
		124,331	98,973
Current Assets			
Other receivables, deposits and prepayments		252	294
Cash and bank balances	26	29,590	40,431
		29,842	40,725
Current Liabilities			
Other payables		201	201
Net Current Assets		29,641	40,524
Total Assets less Current Liabilities		153,972	139,497
Capital and Reserves			
Share capital	32	23,489	23,292
Reserves	34	130,483	116,205
		153,972	139,497

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	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 2011	23,292	103,143	9,200	1,969	5,855	3,818	5,774	88,013	241,064	284	241,348
Employee share option benefits	–	–	–	1,204	–	–	–	–	1,204	–	1,204
Exercise of share options	197	2,390	–	(733)	–	–	–	–	1,854	–	1,854
Profit for the year	–	–	–	–	–	–	–	83,906	83,906	118	84,024
Other comprehensive expense for the year	–	–	–	–	(5,855)	162	4,598	–	(1,095)	15	(1,080)
Total comprehensive income for the year	–	–	–	–	(5,855)	162	4,598	83,906	82,811	133	82,944
2010 final dividend paid	–	–	–	–	–	–	–	(9,384)	(9,384)	–	(9,384)
2011 interim dividend paid	–	–	–	–	–	–	–	(5,635)	(5,635)	–	(5,635)
At 31 December 2011	23,489	105,533	9,200	2,440	–	3,980	10,372	156,900	311,914	417	312,331
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 options	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 paid	–	–	–	–	–	–	–	(7,209)	(7,209)	–	(7,209)
2010 interim dividend paid	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK$'000	2010 HK$'000
Operating activities		
Profit before taxation	97,752	67,961
Adjustments for:		
Impairment in value of available-for-sales financial asset	684	–
Decrease in fair value of derivative financial instrument	136	–
Profit on deemed disposal of a subsidiary	–	(234)
Profit on deemed disposal of associates	(6,441)	–
Share of loss of associates	273	1,159
Depreciation of property, plant and equipment	7,799	5,701
Interest expenses	648	904
Interest income	(390)	(164)
Amortisation of intangible assets	3,194	1,853
Amortisation of leasehold premium for land	67	33
Intangible assets written off	4,238	387
Exchange difference	372	550
Share based payments	1,204	850
Allowance for bad and doubtful debts	1,365	202
Loss on disposal of property, plant & equipment	264	164
Operating cash flows before movements in working capital	111,165	79,366
(Increase) decrease in inventories	(11,390)	3,281
Increase in trade receivables	(17,631)	(27,714)
Increase in other receivables, deposits and prepayments	(5,398)	(3,350)
Increase (decrease) in trade payables	8,622	(1,172)
(Decrease) increase in bill payables	(1,402)	1,402
Increase in other payables	7,461	21,034
Cash from operations	91,427	72,847
Interest paid	(648)	(904)
Income tax paid	(2,768)	(3,734)
Net cash generated from operating activities	88,011	68,209
Investing activities		
Interest received	390	164
Purchase of plant and equipment	(18,551)	(7,345)
Payment for construction in progress	(8,973)	–
Acquisition of leasehold land	(6,423)	–
Additions of deferred development cost	(28,619)	(28,438)
Proceeds from sale of property, plant and equipment	–	96
(Increase) decrease in pledged deposit	(3)	12
Capital contribution in associates	–	(3,919)
Capital contribution from non-controlling interests	–	380
Net cash used in investing activities	(62,179)	(39,050)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 HK$'000	2010 HK$'000
Financing activities		
New loan raised	12,000	9,440
Repayment of loans	(12,996)	(8,556)
New trust receipt loans raised	–	208
Repayment of trust receipt loans	–	(208)
Proceed from obligations under finance leases	1,048	–
Repayment of obligations under finance leases	(157)	(129)
Deemed disposal of a subsidiary	–	(2)
Net proceed from issuance of ordinary shares	–	40,165
Net proceeds from issue of ordinary shares upon exercise of share options	1,854	202
Dividend paid	(15,019)	(11,717)
Net cash (used in) generated from financing activities	(13,270)	29,403
Net increase in cash and cash equivalents	12,562	58,562
Cash and cash equivalents at 1 January	120,104	60,482
Effect of foreign exchange rate changes	1,828	1,060
Cash and cash equivalents at 31 December	134,494	120,104
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	93,598	65,587
Time deposits	40,896	54,517
	134,494	120,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL INFORMATION

Lee's Pharmaceutical Holdings Company ("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 principal activities of the Group are the development, manufacturing and sales of pharmaceutical products.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new and revised HKFRSs issued by the Hong Kong Institutes of Certified Public Accountants ("HKICPA") have been applied by the Group in the current year and have affected the presentation and disclosures set out in these consolidated financial statements. The application of these new and revised HKFRSs has not had any material impact on the Group's financial performance and positions for the current and prior years, but may affect the accounting for future transactions or arrangements.

New and revised HKFRSs applied with no material effect on the consolidated financial statements

Amendments to HKAS 1 Presentation of Financial Statements
(as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

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

New and revised HKFRSs applied with no material effect on the consolidated financial statements *(continued)*

Amendments to HKFRS 3 Business Combinations

As part of Improvements to HKFRSs issued in 2010, HKFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, HKFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify the share-based payment transactions of the acquiree that are not replaced should be measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date ("market-based measure").

The application of amendments has had no impact on profit or loss of the Group of the current and prior years

Amendments to HKAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the equity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to HKAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

The application of amendments has had no impact on profit or loss of the Group of the current and prior years *(continued)*

Amendments to HK(IFRIC) – Int 14 Prepayments of a Minimum Funding Requirement

The interpretation addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of HKAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under HK(IFRIC) – Int 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consolidation paid will be recognised in profit or loss.

The application of HK(IFRIC) – Int 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

Improvements to HKFRSs issued in 2010

Except for the amendments to HKFRS 3 and HKAS 1 described earlier, the application of Improvements to HKFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

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

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

The effective day of HKFRS 9 is deferred from annual periods beginning on or after 1 January 2013 to 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In June 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidated – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or right, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of HKFRS 10 and HKFRS 11 may have an impact on amounts reported in the consolidated financial statements.

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

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

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 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 affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendment to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to HKAS 12 in future accounting periods may not result in adjustments to the amounts of deferred tax liabilities recognised in prior years.

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

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

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. The Group does not have defined benefit plan at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by 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.

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries 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 (effective from 1 January 2010 onwards).

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.

Changes in the Group's ownership interests in existing subsidiaries

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 subsidiaries. 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 *(continued)*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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 *Financial Instrument: Recognition and Measurement* 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

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

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

Non-controlling interests 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, where applicable, on the basis specified in another HKFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

When the consideration transferred by the Group 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 included 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. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the end of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, 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 excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(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 recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any related investment is 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 that 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 consolidated 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 recognised 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 recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as on operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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 recognised at the rates of exchange 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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;

- 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) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that 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 and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 on a systematic basis over the periods in which the Group recognises as expenses 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

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

The pension schemes covering all the Group's employees in the People's Republic of China (the "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, and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that 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 and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation 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, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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 are also recognised 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.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, 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%

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Internally-generated intangible assets – 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, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, internally-generated intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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).

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. When 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. When 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)*

In assessing 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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 of the time value of money 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into one of the four categories: 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

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

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

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

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

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at FVTPL.

AFS financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled be delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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, time deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

For 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

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

- significant financial difficulty of the issuer or counterparty; or
- 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 to 90 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 loss recognised 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 (see the accounting below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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. 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 recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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.

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 *Financial instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Other financial liabilities

Other financial liabilities (including trade, bills and other payables) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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 derecognition of a financial asset other than in its entirely, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which are estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are 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.

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 directors 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 2011, there is no impairment on goodwill during the year.

Valuation of financial instruments

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instrument.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

5. TURNOVER

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

6. SEGMENT INFORMATION

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.

The Group's reportable and operating segments are as follows:

Proprietary products	–	manufacturing and sales of self-developed pharmaceutical products
Licensed products	–	trading of license-in pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results

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

	Proprietary products		Licensed products		Consolidated	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Segment turnover	199,876	148,726	199,809	107,084	399,685	255,810
Segment results	60,669	48,979	41,106	28,988	101,775	77,967
Interest income					390	164
Gain on deemed disposal of a subsidiary					–	234
Gain on deemed disposal of associates					6,441	–
Unallocated expenses					(9,813)	(8,187)
Profit from operations					98,793	70,178
Finance costs					(768)	(1,058)
Profit before share of results of associates					98,025	69,120
Share of results of associates					(273)	(1,159)
Profit before taxation					97,752	67,961
Taxation					(13,728)	(10,039)
Profit for the year					84,024	57,922

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2010: HK$Nil). The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents 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 a measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

	Proprietary products		Licensed products		Consolidated	
	2011	2010	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	106,733	92,689	166,845	91,065	273,578	183,754
Unallocated assets					136,498	127,959
Total assets					410,076	311,713
Segment liabilities	28,275	34,801	46,383	23,670	74,658	58,471
Unallocated liabilities					23,087	11,894
Total liabilities					97,745	70,365

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

- all assets are allocated to reportable segments other than investment in associates, pledged bank deposits, time deposits, and cash and bank balances. Goodwill is allocated to segment of proprietary products. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment; and

- all liabilities are allocated to reportable segments other than tax payable and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

6. SEGMENT INFORMATION *(continued)*

Geographical information

During the years ended 31 December 2011 and 2010, 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	
	2011 HK $'000	2010 HK $'000	2011 HK $'000	2010 HK $'000	2011 HK $'000	2010 HK $'000
Segment assets	167,597	143,814	242,479	167,899	410,076	311,713
Segment liabilities	36,809	40,321	60,936	30,044	97,745	70,365

7. INFORMATION ABOUT MAJOR CUSTOMERS

Included in turnover of HK$399.69 million (2010: HK$255.81 million) are turnover of HK$25,421,994 (2010: HK$14,564,628) which arose from sales to the Group's largest customer, Zhuhai Li Chen Medicine Co. Ltd. No other single customers contributed 6% or more to the Group's revenue for both 2011 and 2010.

8. OTHER REVENUE

	THE GROUP	
	2011 HK$'000	2010 HK$'000
Interest income on bank deposits	390	164
Development grants	216	881
Other income	5,275	4,491
	5,881	5,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

9. DEEMED DISPOSAL OF ASSOCIATES

In prior year, the Group held 25.36% in Powder Pharmaceutical Incorporated ("Powder"). In 2011, the Group has deemed disposal of associates and retains the 15.85% interest as available-for-sale financial asset.

Analysis of assets and liabilities over which the significant influence was lost

	THE GROUP 2011 HK$'000
Non-current assets	
Property, plant and equipment	6,010
Intangible assets	24,424
	30,434
Current assets	
Inventories	543
Other receivables	1,091
Cash and bank balances	9,174
	10,808
Current liability	
Other payables	8,660
Net current assets	2,148
Net assets	32,582

Gain on deemed disposal of associates

	THE GROUP 2011 HK$'000
Fair value of investment retained (15.85%)	8,849
Carrying value of 25.36% investment on the date of loss of significant influence	(8,263)
Release of share of other reserves of associates	5,855
Gain on deemed disposal	6,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

10. PROFIT FROM OPERATIONS

	THE GROUP 2011 HK$'000	THE GROUP 2010 HK$'000
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	7,799	5,701
Amortisation of intangible assets	3,194	1,853
Total depreciation and amortisation	10,993	7,554
Auditors' remuneration	601	595
Listing costs	660	1,235
Staff costs	56,804	36,297
Share based payments	1,204	850
Research and development costs	11,835	5,590
Operating lease payments in respect of rented premises	3,977	3,503
Allowance for bad and doubtful debts	1,365	202
Loss on disposal of plant and equipment	264	164

11. FINANCE COSTS

	THE GROUP 2011 HK$'000	THE GROUP 2010 HK$'000
Interest on bank loans and other borrowings wholly repayable within five year	648	904
Bank charges	120	61
Guarantee fee for loan	–	93
	768	1,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

12. DIRECTOR 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 seven (2010: seven) directors were as follows:

The Group	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Employer's contributions to pension schemes HK$'000	2011 Total emoluments HK$'000	2010 Total emoluments HK$'000
Executive Directors					
Lee Siu Fong	–	1,707	12	1,719	1,332
Leelalertsuphakun Wanee	–	2,431	12	2,443	1,812
Li Xiaoyi	–	3,304	12	3,316	2,465
Non-executive Director					
Mauro Bove	75	–	–	75	75
Independent non- executive Directors					
Chan Yau Ching	60	–	–	60	53
Lam Yat Cheong	60	–	–	60	55
Tsim Wah Keung	60	–	–	60	53
Total	255	7,442	36	7,733	5,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2010: two) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	1,356	1,350
Contributions to retirement benefits schemes	24	24
	1,380	1,374

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.

14. TAXATION

	THE GROUP	
	2011 HK$'000	2010 HK$'000
Current tax		
Hong Kong	5,493	1,368
PRC Enterprise Income Tax	4,008	3,945
Over-provision in prior year	–	(14)
	9,501	5,299
Deferred tax		
Provision of current year	4,227	4,740
	13,728	10,039

14. TAXATION *(continued)*

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 15% to 25% (2010: 15%).

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

	2011 HK$'000	2010 HK$'000
Profit before taxation	97,752	67,961
Notional tax at the rates applicable to results in regions concern	15,627	10,564
Tax effect of share of results of associates	45	191
Tax effect of non-deductible expenses	1,950	730
Tax effect of non-taxable revenues	(1,950)	(414)
Over provision in prior year	–	(14)
Tax effect on temporary differences not recognised	(3)	(486)
Temporary difference not recognised in last year	–	458
Tax effect of tax losses not recognised	74	244
Tax effect of PRC preferential tax allowance	(1,616)	(1,122)
Utilisation of tax losses previously not recognised	(399)	(112)
Tax charge for the year	13,728	10,039

At the 31 December 2011, the Group has unused estimated tax losses of HK$1.249 million (2010: HK$2.997 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15. DIVIDENDS

	2011 HK$'000	2010 HK$'000
Interim dividend paid – HK$0.012 (2010: HK$0.01) per share	5,635	4,508
Final dividend proposed – HK$0.03 (2010: HK$0.02) per share	14,093	9,317
	19,728	13,825

The final dividend of HK$0.03 (2010: HK$0.02) 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 2011.

16. EARNINGS PER SHARE

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

	THE GROUP 2011	 2010
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK$83,906,000	HK$58,026,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	468,729,725	453,409,615
Effect of dilutive potential ordinary shares:		
Options	9,900,651	13,311,095
Weighted average number of ordinary shares for the purposes of diluted earnings per share	478,630,376	466,720,710

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FOR THE YEAR ENDED 31 DECEMBER 2011

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Office and laboratory equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
The Group							
COST OR VALUATION							
At 1 January 2011	17,172	2,500	17,401	8,735	2,792	–	48,600
Exchange rate adjustments	728	2	738	229	83	–	1,780
Additions	4,154	–	9,509	2,979	1,909	8,973	27,524
Disposals	(397)	–	(1,104)	(294)	–	–	(1,795)
At 31 December 2011	21,657	2,502	26,544	11,649	4,784	8,973	76,109
Comprising:							
At cost	–	2,502	26,544	11,649	4,784	8,973	54,452
At valuation	21,657	–	–	–	–	–	21,657
	21,657	2,502	26,544	11,649	4,784	8,973	76,109
DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	8,215	1,043	7,571	4,284	607	–	21,720
Exchange rate adjustments	348	–	322	128	20	–	818
Charge for the year	1,373	478	3,457	2,006	485	–	7,799
Written off upon disposal	(238)	–	(1,009)	(284)	–	–	(1,531)
At 31 December 2011	9,698	1,521	10,341	6,134	1,112	–	28,806
NET BOOK VALUES							
At 31 December 2011	11,959	981	16,203	5,515	3,672	8,973	47,303

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FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Buildings	Leasehold improvement	Plant and machinery	Office and laboratory equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

17. 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$8.95 million (2010: HK$5.71 million).

At 31 December 2011, the Group has pledged leasehold land and building with an aggregate amount of HK$Nil (2010: HK$8,678,271) for banking facilities. Motor vehicles of HK$1,731,256 (2010: HK$ 664,400) is held under finance leases.

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18. INTANGIBLE ASSETS

	License fee	Development cost	Total
	HK$'000	HK$'000	HK$'000
The Group			
COST			
At 1 January 2010	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 and at 1 January 2011	34,850	34,185	69,035
Exchange rate adjustments	–	1,452	1,452
Additions	14,625	13,994	28,619
Impairment	(1,950)	(2,288)	(4,238)
At 31 December 2011	47,525	47,343	94,868
AMORTISATION AND IMPAIRMENT			
At 1 January 2010	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 and at 1 January 2011	992	3,251	4,243
Exchange rate adjustments	–	134	134
Charge for the year	2,471	723	3,194
At 31 December 2011	3,463	4,108	7,571
NET BOOK VALUES			
At 31 December 2011	44,062	43,235	87,297
At 31 December 2010	33,858	30,934	64,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

18. INTANGIBLE ASSETS *(continued)*

The Company	License fee HK$'000
COST	
At 31 December 2011 and 31 December 2010	3,840

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

19. LEASE PREMIUM FOR LAND

	THE GROUP	
	2011 HK$'000	2010 HK$'000
Net book value at 1 January	1,269	1,225
Additions	6,423	–
Exchange rate adjustment	53	77
	7,745	1,302
Amortisation for the year	(67)	(33)
Net book value at 31 December	7,678	1,269
Current portion of non-current assets	(164)	(34)
Non-current portion	7,514	1,235

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

20. GOODWILL

	THE GROUP	
	2011 HK$'000	2010 HK$'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 (2010: 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.

21. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2011 HK$'000	2010 HK$'000
Investments at cost:		
Unlisted shares	1	771
Amounts due from subsidiaries	120,490	94,362
	120,491	95,133

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's principal subsidiaries as at 31 December 2011 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 Directly 2011 %	Directly 2010 %	Indirectly 2011 %	Indirectly 2010 %	Principal activities
廣州兆科聯發醫藥有限公司	PRC	Paid-up capital	RMB1,000,000	–	67%	67%	–	Trading of pharmaceutical products *(Note 1)*
Lee's Pharmaceutical International Limited	The British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Trading of pharmaceutical products
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	Paid-up capital	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
Zhaoke Pharmaceutical (Guangzhou) Ltd.	PRC	Paid-up capital	US$5,600,000	–	–	100%	–	Trading of pharmaceutical products *(Note 2)*
China Cardiovascular Focus Limited	The British Virgin Islands	Ordinary	US$1	–	–	100%	–	Not yet commenced Business *(Note 3)*

Notes:

1. The ownership interest therein is held by Zhaoke Pharmaceutical (HK) Limited after the Group restructure taken place in October 2011, whereas in 2010 it is held by the Company.

2. Zhaoke Pharmaceutical (Guangzhou) Ltd. was incorporated in March 2011 in the PRC. The registered capital of the company is US$8,000,000. As at 31 December 2011, a total paid-up capital of US$5,600,000 was injected into the company.

3. The company was incorporated in May 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

22. INVESTMENT IN ASSOCIATES

In March 2011, Powder issued 30,000 shares to independent third parties, the shareholding of investments in associates held by the Group was changed from 25.36% to 15.85%. The deemed disposal of associates leads Powder become an available-for-sale financial asset of the Group.

23. AVAILABLE-FOR-SALE FINANCIAL ASSET

Details of the Group's available-for-sale financial asset is as follows:

	2011 HK$'000
Unlisted equity security, at cost *(Note)*	8,849
Impairment loss	(684)
	8,165

Note: The equity security represents the 15.85% equity interest in Powder due to deemed disposal as described in note 9 & 22.

24. INVENTORIES

	THE GROUP	
At cost	2011 HK$'000	2010 HK$'000
Raw materials	6,229	5,027
Work-in-progress	6,659	2,757
Finished goods	22,116	15,387
	35,004	23,171

Included above are raw materials which are carried at net realisable value of HK$Nil (2010: HK$Nil) at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

25. TRADE RECEIVABLES

The credit period on sales of goods is 30-120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The fair value of the Group's trade receivables at 31 December 2011 approximate to the corresponding carrying amount.

Of the trade receivables balance at the end of the year, HK$13,540,581 (2010: HK$5,948,412) is due from the Group's largest customer, Zhuhai Li Chen Medicine Co. Ltd. There are no other customers who represent more than 23% of the total balance of trade receivables.

The following is an aging analysis of trade receivables at 31 December 2011.

	THE GROUP	
	2011 HK$'000	2010 HK$'000
0-90 days	53,493	39,642
91-180 days	3,837	1,133
181-365 days	2,024	580
Over 365 days and under 3 years	1,018	360
	60,372	41,715
Less: Allowance for bad and doubtful debts	(2,030)	(650)
	58,342	41,065

Trade receivable disclosed above include amounts that are past due at the end of the reporting period.

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FOR THE YEAR ENDED 31 DECEMBER 2011

25. TRADE RECEIVABLES *(continued)*

Movement in allowance for bad and doubtful debts

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	650	441
Exchange rate adjustments	15	7
Provision for doubtful debts	1,365	202
Balance at the end of the year	2,030	650

26. BANK BALANCES/PLEDGED BANK DEPOSITS/TIME DEPOSITS

Bank balances carry interest at market rates which is 0.0001% to 0.0006% (2010: 0.0052% to 0.1042%) per annum. The pledged bank deposits carry interest rate of 0.15% (2010: 0.1%) per annum. The time deposits carry interest rate of 0.6% to 1.3% (2010: 0.6% to 0.8%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2,002,951 (2010: HK$2,000,499) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets.

27. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2011 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2011.

	THE GROUP	
	2011 HK$'000	2010 HK$'000
0-90 days	9,057	357
91-180 days	1	45
181-365 days	24	71
Over 365 days	23	–
	9,105	473

28. DERIVATIVE FINANCIAL INSTRUMENT

	THE GROUP	
	2011 HK$'000	2010 HK$'000
Financial liabilities		
Foreign currency forward contracts	136	–

	THE GROUP	
	2011 HK$'000	2010 HK$'000
Financial liabilities		
Beginning of the year	–	–
Change in fair value of derivative financial instruments	136	–
End of the year	136	–

At 31 December 2011, the major terms of the foreign currency forward contracts are as follows:

Notional amount	Underlying currencies	Maturity	Exchange rate
EUR100,000	EUR/USD	14 March 2012	1.3528
EUR300,000	EUR/USD	15 March 2012	1.3233

The above derivatives are measured at fair value at the end of each reporting period. The fair values are determined based on the quoted market prices for equivalent instruments at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

29. BANK BORROWINGS

	THE GROUP 2011 HK$'000	THE GROUP 2010 HK$'000
Secured bank loans classified as current liabilities (1)(2)	17,160	17,756

	THE GROUP 2011 HK$'000	THE GROUP 2010 HK$'000
Carrying amount of the borrowings are repayable: (3)		
Within one year	4,445	12,224
More than one year but not exceeding two years	4,228	2,176
More than two year but not exceeding five years	8,487	3,356
	17,160	17,756

Notes:

(1) Loan represents bank borrowings under Small and Medium Enterprises Loan Guarantee Scheme and Special Loan Guarantee Scheme, Trade and Industry Department. They bear interest ranging from 3%-6% (2010: 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 in the current year.

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

30. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. The average lease term is three years to five years (2010: five years). Interest rates underlying all obligations under finance leases range from 5.52% to 8.99% (2010: 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	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Amounts payable under finance leases:				
Within one year	611	175	522	140
In the second to fifth year inclusive	923	395	869	360
	1,534	570	1,391	500
Less: Future finance charges	(143)	(70)	n/a	n/a
Present value of lease obligations	1,391	500	1,391	500
Less: Amount due for settlement within 12 months (shown under current liabilities)			(522)	(140)
Amounts due for settlement after 12 months			869	360

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

31. 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$'000	Intangible assets HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 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 and 1 January 2011	312	8,185	487	8,984
Exchange difference	–	147	21	168
Charge (credit) to profit or loss	76	4,208	(57)	4,227
At 31 December 2011	388	12,540	451	13,379

32. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each		Amount	
	2011	2010	2011 HK$'000	2010 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	465,832,437	450,112,437	23,292	22,506
Exercise of share options	3,938,000	720,000	197	36
Issue of ordinary shares	–	15,000,000	–	750
At end of the year	469,770,437	465,832,437	23,489	23,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

33. NON-CONTROLLING INTERESTS

Non-controlling interests as at 31 December

	THE GROUP 2011 HK$'000	2010 HK$'000
Balance at 1 January	284	–
Capital injection	–	380
Share of profit (loss) for the year	118	(104)
Share of exchange reserve on consolidation	15	8
Balance at 31 December	417	284

The non-controlling interests represents the 33% equity interests held by third parties in 廣州兆科聯發醫藥有限公司.

Transaction with non-controlling interests

There are no transactions with non-controlling interests in 2011 (2010: HK$Nil).

34. 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 2011	103,143	9,200	1,969	1,893	116,205
Employee share option benefits	–	–	1,204	–	1,204
Exercise of share options	2,390	–	(733)	–	1,657
2010 final dividend paid	–	–	–	(9,384)	(9,384)
2011 interim dividend paid	–	–	–	(5,635)	(5,635)
Net profit for the year	–	–	–	26,436	26,436
At 31 December 2011	105,533	9,200	2,440	13,310	130,483
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 paid	–	–	–	(7,209)	(7,209)
2010 interim dividend paid	–	–	–	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

34. RESERVES *(continued)*

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

The Company's reserves available for distribution to shareholders as at 31 December 2011 was HK$130.48 million (2010: HK$116.21 million).

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

The Company's reserves available for distribution represent the share premium, merger difference and retained profits. 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.

35. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of net debt (which includes borrowings and obligations under finance lease offset by cash and cash equivalents) and equity of the Group (comprising issued share capital, share premium, reserves and retained profits).

35. CAPITAL MANAGEMENT *(continued)*

Gearing ratio

The gearing ratio at end of the reporting period was as follows.

	THE GROUP	
	2011 HK$'000	2010 HK$'000
Debt *(Note 1)*	18,551	18,256
Cash and cash equivalents	(134,494)	(120,104)
Net debt	(115,943)	(101,848)
Equity *(Note 2)*	311,914	241,064
Net debt to equity ratio	N/A	N/A

Notes:

(1) Debt is defined as long-term and short-term bank borrowings and obligations under finance leases as described in note 29 and 30.

(2) Equity includes all capital and reserves attributable to shareholders of the Company.

36. FINANCIAL INSTRUMENTS

Fair values

As at 31 December 2011, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The directors considers that derivate financial instrument included in the consolidated statement of financial position at amounts approximating to their fair values.

As detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

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FOR THE YEAR ENDED 31 DECEMBER 2011

36. FINANCIAL INSTRUMENTS *(continued)*

Fair values *(continued)*

The following table presents the carrying value of financial instrument measured at fair value at 31 December 2011 across the three levels of the fair value hierarchy defined in HKFRS 7 *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (Highest level): fair values measured are those derived from quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 (Lowest level): fair values measured are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

At 31 December 2011

				THE GROUP
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Liability				
Derivative financial instrument	–	136	–	136

There were no transfers between Levels 1 and 2 in the current year.

The fair value of financial instrument is determined as follows:

- the fair value of derivative financial instrument is determined based on the quoted market prices for equivalent instruments at the end of the reporting period.

36. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into the following derivative financial instrument to manage its exposure to foreign currency risk and interest rate risk:

- Forward foreign exchange contracts to hedge the exchange rate risk

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

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36. FINANCIAL INSTRUMENTS *(continued)*

Foreign currency risk management *(continued)*

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

	Assets		Liabilities	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Renminbi ("Rmb")	53,157	49,719	–	9,440
USD	39,979	19,357	–	–
Euro	2,066	9,842	–	–
	95,202	78,918	–	9,440

Foreign currency sensitivity analysis

The Group is mainly exposed to Rmb, USD and Euro.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit or equity where Hong Kong dollars strengthens 5% against the relative currency. For a 5% weakening of Hong Kong dollars against the relevant currency, they would be a comparable impact on the profit or equity, and the balances would be negative.

Foreign currency sensitivity analysis

	2011 HK$'000	2010 HK$'000
Increase in profit for the year	4,760	3,474

36. FINANCIAL INSTRUMENTS *(continued)*

Foreign currency sensitivity analysis *(continued)*

Interest rate risk management

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.

Credit risk management

As at 31 December 2011, The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position

In order to minimise the credit risk, the management is 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 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.

Trade receivables consist of a large number of customers and spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

Apart from Zhuhai Li Chen Medicine Co. Ltd, the largest customer of the Group, the Group does not have significant risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Zhuhai Li Chen Medicine Co. Ltd did not exceed 10% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management

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 and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivate financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interests flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

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.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The amounts included below for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

36. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management *(continued)*

Liquidity and interest risk tables (continued)

	On demand or less than 1 month	1-3 months	3 months to 1 year	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2011				
Non-derivate financial assets				
Trade and other receivables	59,423	19,872	4,937	84,232
Pledged bank deposits	–	2,003	–	2,003
Time deposit	40,896	–	–	40,896
Cash and bank balances	93,598	–	–	93,598
	193,917	21,875	4,937	220,729
Non-derivate financial liabilities				
Trade, bills and other payables	52,381	3,590	–	55,971
Obligations under finance leases	42	85	395	522
Bank borrowings	17,160	–	–	17,160
	69,583	3,675	395	73,653
At 31 December 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

37. CAPITAL COMMITMENTS

THE GROUP	2011 HK$'000	2010 HK$'000
Capital commitments in respect of:		
Intangible assets – license fee and development cost	26,168	29,066
Property, plant and equipment	1,373	7,232
Construction contract	9,125	–
	36,666	36,298
Authorised but not contracted for:		
Construction contract	123,000	–

38. LEASE COMMITMENTS

THE GROUP	2011 HK$'000	2010 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	3,977	3,183

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	2011 HK$'000	2010 HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	2,351	2,063
More than one year but not exceeding five years	1,492	1,537
	3,843	3,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

39. 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 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,583,000 (2010: 20,114,057) representing 3.76% (2010: 4.3%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

39. SHARE OPTIONS SCHEME *(continued)*

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

Date of grant	Outstanding at 01.01.2011	Granted	During the year Exercised	Cancelled	Outstanding at 31.12.2011	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	–	(300,000)	–	500,000	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	–	(448,000)	(57)	–	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$2.990
20.12.2010	1,230,000	–	–	–	1,230,000	20.06.2011-19.12.2020	HK$3.750
7.10.2011	–	469,000	–	–	469,000	07.04.2012-06.10.2021	HK$2.526
20.12.2011	–	938,000	–	–	938,000	20.06.2012-19.12.2021	HK$2.666
Category II: Employees							
13.01.2003	150,000	–	–	–	150,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	2,240,000	–	(80,000)	–	2,160,000	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	700,000	–	(180,000)	–	520,000	02.07.2008-01.01.2018	HK$0.492
12.01.2010	4,210,000	–	(40,000)	–	4,170,000	12.07.2010-11.01.2020	HK$2.200
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$3.750
	20,114,057	1,407,000	(3,938,000)	(57)	17,583,000		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

39. SHARE OPTIONS SCHEME *(continued)*

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	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	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

39. SHARE OPTIONS SCHEME *(continued)*

Date of Grant	Exercise period		Exercise price per share HK$
02.01.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018	0.492
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009 – 01.01.2018	
26.11.2008	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018	0.383
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010 – 25.11.2018	
27.08.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 27.02.2010 to 26.08.2019	1.030
	(ii)	Unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 27.11.2010 – 26.08.2019	
25.09.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 25.03.2010 to 24.09.2019	1.076
	(ii)	Unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 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	2.200
	(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	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

39. SHARE OPTIONS SCHEME *(continued)*

Date of Grant	Exercise period	Exercise price per share HK$
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
07.10.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	2.526
20.12.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	2.666

39. SHARE OPTIONS SCHEME *(continued)*

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

	Outstanding at 01.01.2011	Granted	During the year Exercised	Cancelled	Outstanding at 31.12.2011
Directors					
Lee Siu Fong	913,000	469,000	–	–	1,382,000
Leelalertsuphakun Wanee	898,057	469,000	(448,000)	(57)	919,000
Li Xiaoyi	3,803,000	469,000	(2,890,000)	–	1,382,000
Lam Yat Cheong	300,000	–	(300,000)	–	–
Mauro Bove	1,300,000	–	–	–	1,300,000
Directors' total	7,214,057	1,407,000	(3,638,000)	(57)	4,983,000
Employees	9,650,000	–	(300,000)	–	9,350,000
Consultants	3,250,000	–	–	–	3,250,000
Grand total	20,114,057	1,407,000	(3,938,000)	(57)	17,583,000

The Group issues equity-settled share-based payments to certain employees and consultants. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

39. SHARE OPTIONS SCHEME *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 7 October 2011 was HK$495,964 and 20 December 2011 was HK$884,272. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility range of 36.73 to 41.17 per cent;

2. expected annual dividend yield range of 1.19 to 1.21 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 2020 were 1.25 per cent and 1.1376 per cent respectively which are adopted to calculate the fair value of options granted on 7 October 2011 and 20 December 2011.

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.

40. PLEDGED OF ASSETS

At 31 December 2011, the Group has pledged leasehold land and building with an aggregate amount of HK$Nil (2010: HK$8,678,271), and pledged bank deposit of HK$2,002,951 (2010: HK$2,000,499) 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$1,731,256 (2010:HK$ 664,400).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

41. RELATED PARTIES TRANSACTIONS

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

Name of related parties	Notes	Nature of transactions	2011 HK$'000	2010 HK$'000
Sigma-Tau Group	(a)	Purchase of pharmaceutical product	43,060	14,675

Notes:

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

42. RETIREMENT BENEFITS SCHEME

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

The total cost charged to income of HK$154,937 (2010: HK$129,503) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2011, contributions of HK$34,536 (2010: HK$28,346) due in respect of the reporting period had not been paid over to the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

43. EVENTS AFTER THE REPORTING PERIOD

In January 2012, the Group signed supplemental service agreements with all executive directors. According to the agreements, all executive directors are entitled to annual management bonus 1.5% to 3.5% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. The portion of the management bonus to be paid to each of the executive director is calculated based on their relative proportion of monthly salary in the final month of the complete financial year.

Further, the directors' annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

Each of executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement until their decease if he/she has engaged in continuous service with the Group for certain years. The Group will require to provide contribution to the pension in related to Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong, and Dr. Li Xiaoyi for 8, 10, and 17 years respectively since 2012 based on their expected retirement years. The provision of the pension contribution is HK$8.5 million approximately for the year 2012 based on the preliminary valuation provided by independent valuer. The directors are still assessing the possible impact of the pension scheme to the Group.

In February 2012, the Group signed a construction contract with construction cost of RMB100 million approximately for the construction of the factory in Nansha.

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 Unit 102, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Thursday, 10 May 2012 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 2011.

2. To declare the final dividend for the year ended 31 December 2011.

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

4. To re-appoint auditors and to authorise 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;

NOTICE OF ANNUAL GENERAL MEETING

(b) the approval in this paragraph 5A(a) above shall authorise the Directors during the Relevant Period to make and grant offers, agreements 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 (whether pursuant to an option or otherwise) by the Directors 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 recognised 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 providing for the allotment of shares of the Company in lieu of the whole or part of the dividend on the shares of the Company in accordance with the articles of association of the Company;

NOTICE OF ANNUAL GENERAL MEETING

(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 5B(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 recognised 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

NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this Resolution, "**Relevant Period**" shall have the same meaning as assigned to it under paragraph 5A(d) of this notice.

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."

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

"**THAT**

(a) conditional upon the Stock Exchange granting the approval for the new share option scheme of the Company, the terms of which are set out in the document marked "A" which has been produced to this meeting and signed by the chairman of this meeting for purposes of identification (the "**New Share Option Scheme**") and subject to such amendments to the New Share Option Scheme as the Stock Exchange may request, the New Share Option Scheme be and are hereby approved and adopted to be the new share option scheme of the Company, and the Board be and is authorised to do and take all such acts or steps and to enter into all such transactions and arrangements as they may consider necessary or expedient to implement and to give effect to the New Share Option Scheme, notwithstanding that they or any of them may be interested in the same; and

NOTICE OF ANNUAL GENERAL MEETING

(b) the Directors of the Company be and are hereby authorised to grant options and to allot, issue and deal with the shares pursuant to the exercise of any option granted under the New Share Option Scheme, provided that the number of options granted thereunder shall be subject to a maximum limit as set out in the New Share Option Scheme."

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

Hong Kong, 21 March 2012

Notes:

(1) The register of members of the Company will be closed from Tuesday, 8 May 2012 to Thursday, 10 May 2012 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled to attend and vote at the meeting. In order to qualify for the right to attend and vote at the above meeting, 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 7 May 2012.

(2) The register of members of the Company will be closed from Tuesday, 22 May 2012 to Thursday, 24 May 2012 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled for the proposed final dividend for the year ended 31 December 2011. In order to qualify for the proposed final dividend for the year ended 31 December 2011, 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 21 May 2012.

(3) 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.

(4) A form of proxy 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.

(5) With reference to the Ordinary Resolution sought in items 5A and 5B of this notice, the directors of the Company wish to state that they have no immediate plans to issue any new shares or to repurchase any existing shares of the Company. The explanatory statement required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the repurchase mandate, together with further details regarding items 3, 5 and 6 of this notice as required by the Rules Governing the Listing of Securities on the Stock Exchange will be included in the circular, which will be despatched to shareholders of the Company together with 2011 Annual Report.