



Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*
(incorporated in the Cayman Islands with limited liability)

05
Annual Report



* For identification purposes only

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

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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 operating 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 mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products that combat diseases and improve health and quality of living.

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. The manufacturing plant of the Group is located in Hefei, Anhui Province of the PRC, comprising two GMP-complaint workshops for the production of gel and lyophilized powder for injection.

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

	Country of origin	Market		Medical application
		PRC	Hong Kong	
Proprietary products:				
Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		Vira-infected disease
Defibrase	PRC	✓		Cerebral ischemic stroke
License-in products:				
Carnitene®	Italy	✓		Cardiac disease
ArginMax®	USA		✓	Health supplement
Horus®S	Italy		✓	Coronary Stent
Challenger	Italy		✓	Balloon Catheter
Vira-38°	USA		✓	Influenza

CORPORATE INFORMATION

GEM STOCK CODE

8221

BOARD OF DIRECTORS

Executive Directors

Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wanee

(*Managing Director*)

Dr. Li Xiaoyi (*Chief Executive Officer*)

Non-executive Director

Dr. Mauro Bove

Independent Non-executive Directors

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

COMPLIANCE OFFICER

Ms. Lee Siu Fong

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Miss Luen Yee Ha, Susanne

PLACE OF BUSINESS IN HONG KONG

Room 1905, Grand Millennium Plaza

Lower Block, 181 Queen's Road Central

Hong Kong

REGISTERED OFFICE

M&C Corporate Services Limited

P.O. Box 309 GT, Uglan House

South Church Street

Grand Cayman, Cayman Islands

COMPANY WEBSITE

www.leespharm.com

AUDIT COMMITTEE

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

AUTHORIZED REPRESENTATIVE

Ms. Lee Siu Fong

Ms. Leelalertsuphakun Wanee

AUDITORS

HLM & Co., Certified Public Accountants

LEGAL ADVISERS

Arculli Fong & Ng (Hong Kong law)

Beijing Wuhuan Law Firm (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East, Hong Kong

FINANCIAL HIGHLIGHTS

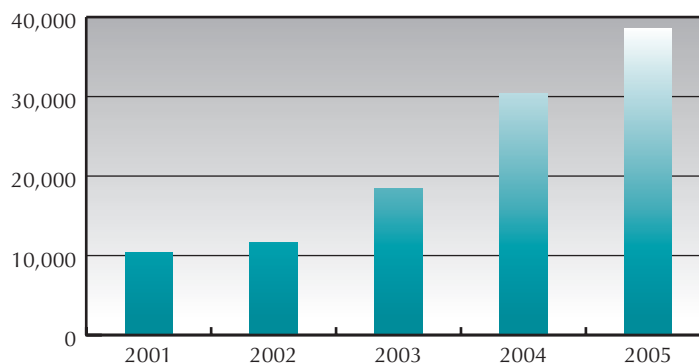
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	38,528	30,395	18,498	11,644	10,346
Gross profit	25,312	20,014	13,364	8,444	7,880
Profit (loss) from operations	555	(2,864)	(4,898)	(4,754)	(1,998)
Current ratio	1.53	1.99	1.71	1.54	0.68

TURNOVER ANALYSIS:

	Three months ended 31 December		Twelve months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Proprietary products	4,834	5,879	24,791	21,503
License-in products	4,126	2,203	13,737	8,892
	<u>8,960</u>	<u>8,082</u>	<u>38,528</u>	<u>30,395</u>

Turnover of the Group (HK\$'000)



CHAIRMAN'S STATEMENT

I am happy to report to you that the Group achieved overall profitability for the first time in 2005, generating a net profit of HK\$153,000. This breakthrough is significant to the development of the Group as it signals the Group's entering into more sustainable growth in both revenue and profitability.

Turnover for the year was HK\$38,528,000, a 27% increase over that of previous year. The growth in revenue was driven significantly by the increase in sales of the Group's two flagship products *Carnitene*[®] and *Livaracine*[®]. The continuing increase in turnover was achieved by intensified knowledge-based promotion which resulted in more than 200 seminars held in hospitals all over PRC during the year of 2005.

In May 2005, the Group acquired 30% equity interest in Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke") from its Chinese partner and Zhaoke has since become a wholly owned subsidiary of the Group. As Zhaoke is the flagship of the Group accounting for more than 60% of the Group's turnover, the wholly owned status of Zhaoke will provide an opportunity for the Group to increase its profit generating power and concentrate its management resources.

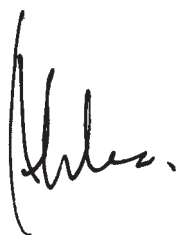
The Group also has obtained new drug certificate from SFDA of PRC for Hemocoagulase from snake venom, which is the third one received by the Group since its establishment and it is a major milestone of development of the Group. The fourth new drug certificate for *Eyprotor*[®] (protein-free calf blood extract eye gelatin) is expected soon. Hence, the Group is on schedule to launch two new products in the coming year which will significantly improve the Group's profitability. Workshop expansion and renovation are underway and upon completion, the Group will be equipped with four GMP certified production lines, namely lyophilized powder for injection, small volume for injection, topical gel and eye gel.

Also during the year, the Group's application for clinical study for the Group's in-house product~Declotana[®] (Antiplatelet Thrombolysin injection) has been approved by the SFDA of China. This is the Group's first proprietary molecule with full intellectual rights that has been developed in-house. The approval is a compliment to the Group's research and development capability. It again ascertains our ability to move technology from benchside to bedside. In addition, the Group has submitted registration applications for four products, both from licensed in or self-developed.

With more new products being launched in the coming year, I am confident that the Group's business will continue to grow.

CHAIRMAN'S STATEMENT

I would like to close by thanking the board, management, and every member of staff for their ongoing dedication and hard work, and our customers, banks, suppliers and shareholders for their continuing support.

A handwritten signature in black ink, appearing to read 'Lee Siu Fong', with a stylized, cursive script.

Lee Siu Fong
Chairman

Hong Kong, 20 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year 2005, the Group continued to improve the efficiency and effectiveness of its operation from which it was able not only to maintain revenue growth, but also to achieve overall profitability for the first time. In the areas of corporate development, drug development and marketing, the Group has continued to strike forward with significant progress, strengthening its position as a dynamic and strong player in China's pharmaceutical market.

Corporate Development

In May 2005, the Group acquired 30% equity interests in the registered capital of Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke") from its Chinese partner, transforming Zhaoke into a wholly owned subsidiary of the Group. Zhaoke was established in 1994 in Hefei China by the Group in partner with the University of Science and Technology of China and has been the operation center of the Group ever since. Today, over 60% of the Group's turnover is derived from Zhaoke's activities which have been profitable since late 2004. The acquisition boosts the earning power of the Group and allows the Group to further develop Zhaoke. Following the acquisition, the Group has invested in renovation and expansion of Zhaoke's workshops. Upon completion, the Group will be equipped with four GMP certified production lines (from previous two), namely lyophilized powder for injection, small volume for injection, topical gel and eye gel.

Drug development

For the Group's drug development efforts, 2005 was a busy and rewarding year. The Group was able to make significant progress in many areas which is paramount to the continual growth of the Group.

During the year, the Group received the approval for new indication herpes zoster for Yallaferon which could provide new growth opportunity for Yallaferon. The Group has also received approval for clinical study of the Group's proprietary product Declotana (Antiplatelet Thrombolysin injection). Research and development work for this new drug project was initiated by the Group in 1995. In 1998, application for clinical study was formally submitted to SFDA. The approval is a compliment to the Group's research and development capability. It again ascertains our ability to move technology from benchside to bedside. In addition, the Group received New Drug Certificate for its Slounase (Hemocoagulase). Hemocoagulase is widely prescribed in China for different types of bleeding problems and Slounase is the first Hemocoagulase in China utilizing local snake venom that was approved by the SFDA. The Group plans to launch the Slounase in the second quarter of 2006 which will undoubtedly boost the Group's revenue and earning capability.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group completed two separate clinical studies for two different products. In May, the clinical study for corneal epithelium abrasion for the Group's proprietary product Eyprotor (Protein-free Calf Blood Extract Eye-gel) was successfully completed. The results show that Eyprotor was well tolerated and effective for treatment of corneal ulcer caused by abrasion. The Group has submitted a New Drug Application and is planning to launch the product in late 2006. In October, the clinical study on evaluating the effects of Yallaferon in cervicitis patients was successfully completed as well. This is the first time that topical interferon has been shown quantifiably to effectively reduce erosion areas in cervicitis patients as a single therapeutic agent. Furthermore, the positive clinical responses were achieved with no evidence of adverse effects. It represents an exciting novel approach for treating cervicitis and cervical erosion which should fuel the future growth of Yallaferon.

The Group has continued to initiate new drug research and development projects for preparation of the future. Currently, there are several projects ongoing. One of the projects, a dermatology product has completed preclinical studies and application for clinical study was submitted in November, 2005.

Imported Products registration

During 2005, the Group has filed registration application for three imported products as a result of our ongoing partnerships with Italian and Spanish companies. In March 2005, the Group submitted the registration application for Bemiparin, a "second generation" low molecular weight heparin to China SFDA. Approval of clinical study is expected in near future. In September 2005, the Group submitted the registration applications for both Acetyl-L-Carnitine, a product indicated for peripheral neuropathy, and Propionyl-L-Carnitine, a product indicated for intermittent claudication. Approval of clinical study is expected in late 2006.

Partnerships

During the year of 2005, the Group continued to expand its partnership with European and US companies. In September 2005, the Group signed an agreement with International Biomedical System S.r.l. of Italy for distribution of HORUS coronary stent with delivery system and CHALLENGER PTCA Balloon Catheter for Hong Kong SAR and People's Republic of China. This partnership allows the Group to leverage on its expertise and experiences in cardiovascular diseases area, tapping into China's rapidly growing stent market. In addition, the Group has initiated discussion with five different companies in either US or Europe for entering exclusive distribution agreement with them for marketing their proprietary products in China. It is expected that some of those negotiations will come to fruition in 2006 which could result in further broadening of the Group's product and revenue base.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and marketing

The Group picked up what it left in 2004 and continued to intensify its brand building efforts through knowledge-based promotion. It held over 200 seminars with either opinion leaders from China or overseas, or the Group's own professional speakers throughout 80 cities and provinces in China reaching many major hospitals. The efforts have significantly enhance the brand awareness of the Group's products and enabled continual growth for both *Carnitene*[®] and *Livaracine*[®].

Also, more effort has been devoted to upgrade the sales and marketing team by introducing competitive performance evaluation system. Management was restructured to have better efficiency and accountability. As the results, the Group had have better market coverage in 2005, evidenced by increasing participation in tenders. In total, the Group participated in 307 tenders for its three products with a successful rate of 90% in 2005..

Among its successful tenders, the Group has won public tenders for *Livaracine*[®] in Guangdong and Beijing, PRC. Moreover, *Carnitene*[®] has also won the tender of Qingdao city of Shandong province. Guangdong and Shandong provinces are two of top five pharmaceutical markets in China. Success in tender has become the need for securing pharmaceutical sales in China and the efforts of the Group has laid down a solid foundation for ensuring rapid growth in China.

FINANCIAL REVIEW

For the year 2005, the Group recorded a profit of HK\$153,000 for the first time. The Group's turnover increased by 27%.

Segment analysis

	2005	2004	Change
	HK\$'000	HK\$'000	
Turnover			
Proprietary products	24,791	21,503	+15%
Licensed products	13,737	8,892	+54%
Total	<u>38,528</u>	<u>30,395</u>	<u>+27%</u>

The increase in sales of proprietary products by 15% was mainly due to the increase in sales of *Livaracine*[®].

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in sales of licensed products by 54% was mainly due to the increase in sales of *Carnitene*[®].

Geographically, the PRC continued to be the Group major market, accounting for 96% of turnover for the year 2005.

Despite of downward pricing pressure, the gross profit margin was maintained steadily at 65.7% by streamlining the production process and better economy of scale driven by the increase of sales volumes.

Selling expenses increased by HK\$ 1.4 million to HK\$14.6 million for the year 2005 as increase in sales and more marketing effort being made during the year. In fact, the percentage of selling expenses over turnover decreased from 43% for 2004 to 38% for 2005 due to better cost control and economy of scale driven by the increase in sales volume.

Administrative expenses increased by HK\$1.3 million as increase in staff cost and other office expenses.

Deferred development cost increased by HK\$1.9 million to HK\$13.8 million and research and development expenses also increased by HK\$0.3 million to HK\$0.9 million during the year 2005. This represented our Group's continuous commitment on development of new proprietary products to ensure growth of business.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2005.

Liquidity and Financial Resources

As at 31 December 2005, the Group had cash and bank balances and pledged bank deposits of approximately HK\$5.89 million (31 December 2004: HK\$12.54 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 1.53 times (31 December 2004: 1.99 times). As at 31 December 2005, the Group had bank and other borrowings of approximately HK\$6.5 million and shareholders' funds of approximately HK\$35.66 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was 1.78% (31 December 2004: zero).

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group did not use any type of derivatives to hedge against any foreign currency fluctuations.

Charges on Group Assets

As at 31 December 2005, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK\$7.76 million (31 December 2004: HK\$10.61 million) was pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of HK\$2.01 million were pledged as securities for banking facilities as at 31 December 2005 (31 December 2004: HK\$2.01 million).

Contingent Liabilities

As at 31 December 2005, the Group had no contingent liabilities.

Subsequent to the year end date, there is a legal action in the High Court against two subsidiaries of the Group for infringing two patent rights. The sales amount of the subject product was only HK\$12,000 for the year ended 31 December 2005. The directors of the Company are of the view that this legal case would not have any material impact on the business or financial position of the Group.

Employee Information

As at 31 December 2005, the Group had 179 employees (2004: 165 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\$9.74 million (2004: HK\$8.85 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

Capital Structure

All the bank and other borrowings of the Group as at 31 December 2005 of HK\$6,526,000 were denominated in RMB and repayable within one year. Pledged bank deposits as at 31 December 2005 of HK\$2,014,000 were dominated in Hong Kong dollars and United States dollars. Cash and bank balances as at 31 December 2005 of HK\$3,876,000 were mainly denominated in Hong Kong dollars and RMB.

Material Acquisitions and Disposals/Future Plans for Material Investments

In May 2005, the Group acquired 30% equity interest in Zhaoke Pharmaceutiacaal (Heifei) Company Limited “Zhaoke” (formerly known as Hefei Siu-Fung USTC Pharmaceutical Company Limited) for cash consideration of HK\$3.9 million. Zhaoke became a wholly owned subsidiary of the Group after the acquisition. The goodwill on acquisition is also HK\$3.9 million. Currently, the Group has no plan for material investment.

BUSINESS OUTLOOK

The Group is confident that it will deliver better results in 2006. With two self developed products are expected for launch in second and forth quarter of 2006, the Group expects significant growth in both revenue and profitability. In addition, the Group is in active discussion with European companies for products already registered in China. The successful conclusion of those discussions could further expand the Group’s revenue base.

Furthermore, the progression of the Group’s pipeline products into more advanced stages of development will lay solid foundation for sustainable growth of the Group in the near future.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 49

Ms. Lee Siu Fong (“Ms. Lee”) joined the Group in April 1997 and has since been responsible for the Group’s financial affairs. Ms. Lee is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. Ms. Lee is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director & Chief Marketing Officer, 52

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, 43, PhD

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

NON-EXECUTIVE DIRECTOR

Mauro Bove, 51, PhD

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

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director & audit committee, 43, 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 Chief Financial Officer of a company that develops and operates an online game business in China. 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 & audit committee, 44, 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 19 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, a company 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 & audit committee, 47, PhD, MPhil, BSc.

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

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Wang Xian Shun

Chief engineer, 69, 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, 47

Mr. Chen Yueshen, is the Chief Operating Officer, Executive Deputy Manager and a Director of Zhaoke. He is responsible for the daily operation of Zhaoke as well as administration and deployment of human resources.

Luen Yee Ha, Susanne

Chief financial officer, company secretary & qualified accountants, 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 over fifteen years' experience in auditing, accounting and financial fields and is a fellow member of the Hong Kong Institute of Certified Public Accountant and the Association of Chartered Certified Accountants. She also has 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 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

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

The Board does not recommend the payment of any dividend for the year ended 31 December 2005.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 68 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 14 to the financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in notes 22 and 25 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 23 to the financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statements of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$31.67 million. This includes the Company's share premium in the amount of HK\$32.5 million at 31 December 2005, 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 24.48% in aggregate for the Group's total turnover for the year (2004: 31.12%).

Purchase from the Group's five largest suppliers accounted for approximately 86.68% in aggregate for the Group's total purchases for the year (2004: 90.59%). The largest supplier of the Group accounted for approximately 60.02% of the Group's total purchases (2004: 63.25%).

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

DIRECTORS

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

Executive directors:

Lee Siu Fong

Leelalertsuphakun Wanee

Li Xiaoyi

Non-executive director

Mauro Bove (appointed on 9 May 2005)

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee has entered into a service contract both dated 14 January 2002 with the Company under which she has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing.

Dr. Li Xiaoyi has entered into a service contract with the Company for an initial term of three years commenced from 1 September 2003 and has the right to renew for an additional period of three years upon mutual agreement. Both parties shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, holding less than 35% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Dr. Chan Yau Ching, Bob ("Dr. Chan") signed a service contract with the Company on 14 January 2002 with no fixed term of office but are subject to the provisions of retirement and rotation of directors under the Articles of Association of the Company.

The service contract with Dr. Chan was revised during the year with term of office of two years commenced on 12 October 2005.

Dr. Mauro Bove (Dr. Bove) was appointed as non-executive director on 9 May 2005. Dr. Bove has a three years service contract with the Company commenced on 3 January 2006.

Each of Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl has entered into a service contract with the Company under which he has been appointed to act as an independent non-executive director for an initial term of three years commencing from 1 July 2004 and 20 September 2004 respectively.

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.

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 share option during year ended 31 December 2005 were as follows:

Grantees	Date of Grant	Number of share options				Outstanding at 31.12.2005
		Outstanding at 1.1.2005	Granted	Exercised/ cancelled	Lapsed	
<i>Directors</i>						
Lee Siu Fong	26.06.2002	1,600,000	-	-	-	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	-	-	-	289,000
Li Xiaoyi	13.01.2003	2,890,000	-	-	-	2,890,000
Mauro Bove	11.07.2005	-	500,000	-	-	500,000
Chan Yau Ching, Bob	13.01.2003	100,000	-	-	-	100,000
	25.06.2004	300,000	-	-	-	300,000
	11.07.2005	-	100,000	-	-	100,000
Lam Yat Cheong	11.07.2005	-	300,000	-	-	300,000
Tsim Wah Keung, Karl	11.07.2005	-	300,000	-	-	300,000
Sub-total of Directors		5,179,000	1,200,000	-	-	6,379,000
<i>Employees</i>						
	26.06.2002	400,000	-	-	(350,000)	50,000
	13.01.2003	550,000	-	-	(150,000)	400,000
	25.06.2004	6,800,000	-	-	(550,000)	6,250,000
	11.07.2005	-	3,750,000	-	-	3,750,000
Sub-total of employees		7,750,000	3,750,000	-	(1,050,000)	10,450,000
Grand total		12,929,000	4,950,000	-	(1,050,000)	16,829,000

REPORT OF THE DIRECTORS

Notes:

1. Particulars of share options:

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

Saved as disclosed above, as at 31 December 2005, 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2005, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

1. Long positions

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

Name	Capacity and nature	Notes	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	<u>163,290,625</u>	165,625,000	47.84
Leelalertsuphakun Wanee	Beneficial owner		1,140,000		
	Interest of corporation	(i)	<u>163,290,625</u>	164,430,625	47.49
Li Xiaoyi	Interest of spouse	(ii)	16,000,000	16,000,000	4.62

Notes:

- (i) 163,290,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.
- (ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

REPORT OF THE DIRECTORS

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Mauro Bove	Beneficial owner	500,000	500,000
Chan Yau Ching, Bob	Beneficial owner	500,000	500,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
Tsim Wah Keung, Karl	Beneficial owner	300,000	300,000
		<u>6,379,000</u>	<u>6,379,000</u>

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number	% of issued share capital
Lee Siu Fong	165,625,000	1,600,000	167,225,000	48.08
Leelalertsuphakun Wanee	164,430,625	289,000	164,719,625	47.54
Li Xiaoyi	16,000,000	2,890,000	18,890,000	5.41
Mauro Bove	–	500,000	500,000	0.14
Chan Yau Ching, Bob	–	500,000	500,000	0.14
Lam Yat Cheong	–	300,000	300,000	0.09
Tsim Wah Keung, Karl	–	300,000	300,000	0.09

2. *Short positions*

No short positions of Directors and chief executive in the Share or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during year ended 31 December 2005 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the following persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

1. Long positions

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

Name	Capacity	Notes	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		155,290,625	44.85
Defiante Farmaceutica, Lda	Beneficial owner		57,000,000	16.46
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	4.62
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	4.62

(b) Underling shares

Name	Capacity and nature	Notes	Nature of Underlying shares	Number of underlying Shares
Defiante Farmaceutica, Lda			Unlisted warrants	69,245,000
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share options	2,890,000

REPORT OF THE DIRECTORS

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

Name	Number of Shares	Number of underlying Shares	Aggregate in number	% of issued share capital
Huby Technology Limited	155,290,625	–	155,290,625	44.85
Defiante Farmaceutica, Lda	57,000,000	69,245,000	126,245,000	30.39
High Knowledge Investments Limited	16,000,000	–	16,000,000	4.62
Lue Shuk Ping, Vicky	16,000,000	2,890,000	18,890,000	5.41

Notes:

- (i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (ii) Dr. Li Xiaoyi, husband of Ms. Lue, has been granted share option to subscribe for 2,890,000 Shares under Share Option Scheme, therefore Ms. Lue is deemed to be interested in such number of Shares

2. *Short positions*

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

Saved as disclosed above, as at 31 December 2005, 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.

CONNECTED TRANSACTIONS

1. *Issue of warrants*

During the year, unlisted warrants were issued to Defiante Farmaceutica, Lta (“Defiante”), a substantial shareholder, who was entitled to subscribe for up to 69,245,000 shares of the Company at the exercise price of HK\$0.224 per share. The issue of warrants constituted a connected transaction which was duly approved by the independent shareholders by way of poll at the EGM held on 11 March 2005.

2. *Continuing connected transactions*

Defiante is a member of Sigma-Tau Group. A Distribution Agreement signed between the Company and the Sigma-Tau Group constituted a connected transaction.

On the EGM held on 11 March 2005, independent shareholders duly approved the Distribution Agreement and the respective Cap of sales of *Carnitene*[®] to the Company by the Sigma-Tau Group for each of the financial years ending 31 December 2005 and 2006 would not exceed HK\$11,813,100 and HK\$16,376,100 respectively.

For the year ended 31 December 2005, sales of *Carnitene*[®] to the Company by the Sigma-Tau Group amounted to HK\$6,066,000.

The continuing connected transactions have been reviewed by the independent non-executive directors and they have confirmed that the transactions:

- a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.
- b. are conducted on normal commercial terms.
- c. are entered into in accordance with the terms of Distribution Agreement that are fair and reasonable and in the interests of Shareholders as a whole.

REPORT OF THE DIRECTORS

3. *Exempted connected transactions*

During the year, goods were sold to two companies in which Directors of the Company had beneficial interests. The transactions are regarded as connected transactions pursuant to Chapter 20 of GEM Listing Rules. Particulars of the transactions are disclosed in note 27 to the financial statements.

The independent non-executive Directors have confirm that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, on an arm's length basis and are fair and reasonable insofar as the shareholders of the Company were concerned.

Save as disclosed above, there were no other transactions requiring disclosure of connected transactions in accordance with the requirements of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the year ended 31 December 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company listed securities during the year ended 31 December 2005 (2004: Nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors, a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules during the year. Based on such confirmation, the Company considers Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl to be independent.

STAFF RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

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 GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2005.

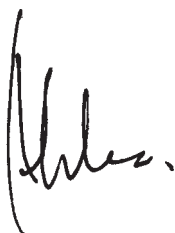
AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2005 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 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, 20 March 2006

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2005, with deviations from provision A.4.2 and B.1 of the Code.

Under the current provision of Articles of Association of the Company, the managing director is not subject to retirement by rotation at each annual general meeting. The board of directors “the Board” proposed to amend the Articles of Association in the coming annual general meeting so as to bring the Articles of Association in line with paragraph A.4.2 of the Code which requires that every Director should be subject to retirement by rotation at least once every three years.

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 and Association of the Company.

DIRECTORS’ SECURITIES TRANSACTIONS

During the year ended 31 December 2005, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealing throughout the year ended 31 December 2005.

CORPORATE GOVERNANCE REPORT

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 2005, 7 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 (Chairperson)	7/7	100%
Leelalertsuphakun Wanee	7/7	100%
Li Xiaoyi	5/7	71%
Non-executive Director		
Mauro Bove (appointed on 9 May 2005)	0/4	0%
Independent Non-executive Directors		
Chan Yau Ching, Bob	3/7	43%
Lam Yat Cheong	6/7	86%
Tsim Wah Keung, Karl	2/7	29%

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.

REMUNERATION OF DIRECTORS

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE AND ACCOUNTABILITY

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

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

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

In the financial year ended 31 December 2005, 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%

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 financial statements on pages 32 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



HLM & Co.
Certified Public Accountants

Hong Kong, 20 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
Turnover	4	38,528	30,395
Cost of sales		(13,216)	(10,381)
Gross profit		25,312	20,014
Other revenue	6	1,770	623
Selling and distribution expenses		(14,614)	(13,207)
Research and development expenses		(878)	(571)
Administrative expenses		(11,035)	(9,723)
Profit (loss) from operations	7	555	(2,864)
Finance costs	8	(446)	(565)
Profit (loss) before taxation		109	(3,429)
Taxation	11	44	36
Net profit (loss) attributable to shareholders		153	(3,393)
Dividends	12	–	–
		HK cents	HK cents
Earnings (loss) per Share			
Basic	13	0.04	(1.09)
Diluted	13	N/A	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2005

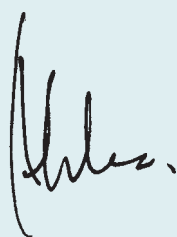
	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
Non-current assets			
Property, plant and equipment	14	11,806	11,772
Intangible assets	15	13,832	11,869
Lease premium for land	16	1,142	1,141
Goodwill		3,900	–
		30,680	24,782
Current assets			
Lease premium for land		28	27
Inventories	18	3,751	3,882
Amount due from a related company		–	104
Trade receivables	19	3,716	3,581
Other receivables, deposits and prepayments		2,777	3,126
Pledged bank deposits		2,014	2,012
Cash and bank balances		3,876	10,527
		16,162	23,259
Current liabilities			
Amount due to related companies		–	386
Trade payables	20	509	94
Trust receipts		–	1,607
Other payables		3,527	4,742
Short term borrowings	21	6,526	4,837
		10,562	11,666
Net current assets		5,600	11,593
Total assets less current liabilities		36,280	36,375

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
Capital and reserves			
Share capital	22	17,311	17,311
Reserves		18,349	18,416
		<u>35,660</u>	<u>35,727</u>
Non-current liabilities			
Deferred tax liabilities		620	648
		<u>36,280</u>	<u>36,375</u>

The financial statements on pages 32 to 67 were approved and authorised for issue by the Board of Directors on 20 March 2006 and are signed on its behalf by:



Lee Siu Fong
Director




Leelalertsuphakun Wanee
Director

BALANCE SHEET

At 31 December 2005

	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
Non-current assets			
Intangible assets	15	3,840	3,840
Interests in subsidiaries	17	44,208	39,970
		<u>48,048</u>	<u>43,810</u>
Current assets			
Other receivables, deposits and prepayments		42	204
Pledged bank deposits		1,000	1,000
Cash and bank balances		126	6,105
		<u>1,168</u>	<u>7,309</u>
Current liabilities			
Other payables		240	96
Net current assets		<u>928</u>	<u>7,213</u>
Total assets less current liabilities		<u>48,976</u>	<u>51,023</u>
Capital and reserves			
Share capital	22	17,311	17,311
Reserves	23	31,665	33,712
		<u>48,976</u>	<u>51,023</u>



Lee Siu Fong
Director



Leelalertsuphakun Wanee
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Share-based		Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
				Revaluation reserve HK\$'000	Compensation reserve HK\$'000			
At 1 January 2005	17,311	33,227	9,200	3,921	–	(99)	(26,681)	36,879
Adoption of HKFRS 2	–	–	–	–	255	–	(255)	–
Adoption of HKAS 17	–	–	–	(893)	–	37	(296)	(1,152)
At 1 January 2005, as restated	17,311	33,227	9,200	3,028	255	(62)	(27,232)	35,727
Warrant issue net expenses	–	(731)	–	–	–	–	–	(731)
Employee share option benefits	–	–	–	–	188	–	–	188
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	78	–	245	–	323
Net profit for the year	–	–	–	–	–	–	153	153
At 31 December 2005	<u>17,311</u>	<u>32,496</u>	<u>9,200</u>	<u>3,106</u>	<u>443</u>	<u>183</u>	<u>(27,079)</u>	<u>35,660</u>
At 1 January 2004	14,461	24,887	9,200	3,921	–	(14)	(23,413)	29,042
Adoption of HKFRS 2	–	–	–	–	103	–	(103)	–
Adoption of HKAS 17	–	–	–	(914)	–	58	(323)	(1,179)
At 1 January 2004, as restated	14,461	24,887	9,200	3,007	103	44	(23,839)	27,863
Shares issued at premium	2,850	8,664	–	–	–	–	–	11,514
Share issue expenses	–	(324)	–	–	–	–	–	(324)
Employee share option benefits	–	–	–	–	152	–	–	152
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	21	–	(106)	–	(85)
Net loss for the year	–	–	–	–	–	–	(3,393)	(3,393)
At 31 December 2004	<u>17,311</u>	<u>33,227</u>	<u>9,200</u>	<u>3,028</u>	<u>255</u>	<u>(62)</u>	<u>(27,232)</u>	<u>35,727</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK\$'000	2004 (Restated) HK\$'000
Operating Activities		
Profit (loss) before taxation	109	(3,429)
Adjustments for:		
Depreciation of property, plant and equipment	1,493	1,450
Interest expenses	446	523
Interest income	(91)	(71)
Amortisation of intangible assets	558	550
Amortisation of leasehold premium for land	28	–
Provision for bad debt	6	–
Exchange difference	(70)	–
Share based payments	188	152
Written back of account payable	(1,178)	–
Loss (gain) on disposal of property, plant & equipment	11	(13)
Operating cash flow before movements in working capital	1,500	(838)
Decrease (increase) in inventories	147	(1,664)
Decrease (increase) in trade receivables	245	(2,478)
Decrease (increase) in other receivables, deposits and prepayment	382	(802)
Increase (decrease) in trade payables	27	(104)
(Decrease) Increase in trust receipts	(1,607)	798
Decrease in other payables	(139)	(194)
Cash from (used in) operations	555	(5,282)
Interest paid	(449)	(498)
Net Cash from (used in) operating activities	106	(5,780)
Investment activities		
Interest received	91	71
Purchase of plant and equipment	(1,243)	(604)
Additions of deferred development cost	(2,358)	(1,201)
Acquisition of additional interest in a subsidiary	(3,900)	–
Warrant issuance expense	(731)	–
Net cash used in investing activities	(8,141)	(1,734)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK\$'000	2004 (Restated) HK\$'000
Financial activities		
New loan raised	4,798	–
Repayment of loans	(3,234)	(3,515)
Proceeds from share issue	–	11,514
Payment of shares issuance expenditures	–	(324)
Net cash from financing activities	<u>1,564</u>	<u>7,675</u>
Net (decrease) increase in cash and cash equivalents	(6,471)	161
Cash and cash equivalents at 1 January	12,539	12,532
Effect of foreign exchange rate changes	(178)	(154)
Cash and cash equivalents at 31 December	<u><u>5,890</u></u>	<u><u>12,539</u></u>
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	3,876	10,527
Pledged bank deposits	<u>2,014</u>	<u>2,012</u>
	<u><u>5,890</u></u>	<u><u>12,539</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. GENERAL

The Company is a public limited company in the Cayman Islands and its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the development, manufacturing and sales of pharmaceutical products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

HKICPA has converged all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board at 1 January 2005. As a result, the HKICPA has aligned HKFRS with the requirements of IFRSs in all material respects.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effect of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The accounting standards which have material effects on the Group are set out below:

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting period to the income statement. HKFRS 2 has been applied retrospectively for all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2005.

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land was previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, leasehold land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease. HKAS 17 has been applied retrospectively.

The effect of adopting HKAS 17 and HKFRS 2 on the consolidated income statement for the year ended 31 December 2005 and 31 December 2004 and on the consolidated balance sheet as at 31 December 2005 and 31 December 2004 are shown below:

Effect of adopting HKAS 17 and HKFRS 2 on consolidated income statement:

	Year ended 31 December 2005		Year ended 31 December 2004	
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 17 HK\$'000	HKFRS 2 HK\$'000
(Increase) decrease in administrative expenses	38	(188)	31	(152)
Increase in taxation	(5)	—	(4)	—
Total increase (decrease) in profit	<u>33</u>	<u>(188)</u>	<u>27</u>	<u>(152)</u>
	HK cent	HK cent	HK cent	HK cent
Increase (decrease) in basic earnings (loss) per share	<u>0.009</u>	<u>(0.054)</u>	<u>0.009</u>	<u>(0.049)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Effect of adopting HKAS 17 and HKFRS 2 on consolidated balance sheet:

	Year ended 31 December 2005		Year ended 31 December 2004	
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 17 HK\$'000	HKFRS 2 HK\$'000
Increase (decrease) in assets				
Property, plant and machinery	(2,457)	–	(2,523)	–
Lease premium for land (current and non-current)	1,170	–	1,168	–
Increase (decrease) in liabilities/equity				
Deferred tax liabilities	(204)	–	(203)	–
Employee share-based compensation reserve	–	188	–	255
Revaluation reserves	(893)	–	(893)	–
Exchange reserves	37	–	37	–
Accumulated losses	253	(188)	296	(255)

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except certain presentation and disclosure of the accounts would be affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Turnover

Turnover represents the net amount received and receivable for goods sold to customers during the year.

Revenue recognition

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

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

Investments in subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment other than land and buildings are stated at cost less depreciation and accumulated impairment losses.

Leasehold buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

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

Buildings	20 years
Leasehold improvement	5 years
Plant and machinery	7 to 10 years
Office and laboratory equipment	3 to 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Lease premiums for land

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Research and development expenditure

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

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

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Operating lease

Rentals applicable to operating leases are charged, on a straight-line basis, over the lease term to the income statement.

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 income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

Borrowing costs

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

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Employee benefits

(i) Salaries, bonuses and leave benefits

Employee entitlements to salaries, double pay, paid annual leave and the cost to the Group of non-monetary benefits are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlement to sick leave and maternity leave are recognised when the absences occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(ii) Retirement benefit

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary.

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

The cost of all these schemes is charged to the income statement for the period concerned and the assets of all these schemes are held separately from those of the Group. Under the Mandatory Provident Fund Scheme, the employer's contribution is reduced by contribution forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iii) Share options

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

Government grants

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

Goodwill

Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

4. TURNOVER

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

5. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

	Proprietary products		Licensed products		Consolidated	
	2005	2004	2005	2004	2005	2004 (Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	24,791	21,503	13,737	8,892	38,528	30,395
Segment results	3,586	3,567	(939)	(3,714)	2,647	(147)
Interest income					86	71
Unallocated expenses					(2,178)	(2,788)
Profit (loss) from operations					555	(2,864)
Finance costs					(446)	(565)
Profit/(loss) before taxation					109	(3,429)
Taxation					44	36
Profit (loss) attributable to shareholders					153	(3,393)
Segment assets	35,671	23,109	7,083	13,783	42,754	36,892
Unallocated assets					4,088	11,149
Total assets					46,842	48,041
Segment liabilities	9,500	9,642	1,682	2,576	11,182	12,218
Unallocated liabilities					–	96
Total liabilities					11,182	12,314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

5. SEGMENT INFORMATION

Geographical segments

During the years ended 31 December 2005 and 2004, 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	(Restated) 2004 HK\$'000
Segment assets	30,063	27,043	16,779	20,998	46,842	48,041
Segment liabilities	9,500	11,404	1,682	910	11,182	12,314

6. OTHER REVENUE

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Other income	1,684	539
Interest income on bank deposits	86	71
Gain on disposal of plant and machinery	—	13
	<u>1,770</u>	<u>623</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. PROFIT (LOSS) FROM OPERATIONS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,493	1,450
Amortisation of intangible assets	558	550
Total depreciation and amortisation	<u>2,051</u>	<u>2,000</u>
Auditors' remuneration	463	445
Staff costs	9,743	8,719
Research and development costs	878	571
Operating lease payments in respect of rented premises	1,173	979
Bad debts written off	27	23
Allowance for bad and doubtful debts written back	(21)	(84)
Loss on disposal of plant and equipment	11	–
	<u>11</u>	<u>–</u>

8. FINANCE COSTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five year	343	493
Amount due to a related company	–	30
	<u>343</u>	<u>523</u>
Bank charges	103	42
	<u>446</u>	<u>565</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

9. DIRECTORS' REMUNERATIONS

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

The emoluments paid or payable to each of the 7 (2004: 7) directors were as follows:

The Group

	Fees HK\$'000	Salaries, allowances, and other remuneration HK\$'000	Employer's contributions to pension schemes HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
Executive Directors					
Lee Siu Fong	–	840	12	852	852
Leelalertsuphakun Wanee	–	778	12	790	702
Li Xiaoyi	–	1,200	12	1,212	1,212
Non- executive Director					
Mauro Bove	32	–	–	32	–
Independent non-executive Directors					
Chan Yau Ching	50	–	–	50	50
Lam Yat Cheong	50	–	–	50	25
Tsim Wah Keung	50	–	–	50	14
Leung Yun Fai	–	–	–	–	25
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	182	2,818	36	3,036	2,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are included in the disclosures in note (9) above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	494	679
Contributions to retirement benefits schemes	17	22
	<u>511</u>	<u>701</u>

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

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

11. TAXATION

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Current tax		
Hong Kong	—	—
The PRC	—	—
Deferred tax		
Credit of current year	44	36
Taxation attributable to the Group	<u>44</u>	<u>36</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. TAXATION (continued)

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

	2005 HK\$'000	2004 HK\$'000
Profit (loss) before taxation	109	(3,429)
Tax at applicable rate	(33)	(599)
Tax effect of non-deductible expenses	58	65
Tax effect of non-taxable revenues	(277)	(162)
Tax effect on temporary differences not recognised	(28)	(31)
Tax effect of tax losses not recognised	468	841
Utilisation of tax losses previously not recognised	(232)	(150)
Tax credit for the year	(44)	(36)

At the balance sheet date, the Group has unused estimated tax losses of HK\$12.5 million (2004: HK\$13.3 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

12. DIVIDENDS

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: HK\$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. EARNINGS (LOSS) PER SHARE

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

	THE GROUP	
	2005	2004
Net profit (loss) attributable to shareholders for the purpose of basic and diluted earnings (loss) per share	<u>HK\$153,000</u>	<u>HK\$(3,393,000)</u>
Number of shares:-		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	346,225,000	310,561,066
Effect of dilutive potential ordinary shares: options and warrants	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>346,225,000</u>	<u>310,561,066</u>

No diluted earnings (loss) per share has been presented because the exercise prices of the Company's options and warrants were higher than the average market price of the shares for year ended 2005 and 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

	Property under construction HK\$'000	Buildings HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Office and laboratory equipment HK\$'000	Total HK\$'000
The Group						
COST OR VALUATION						
At 1 January 2005	–	12,876	314	6,646	2,396	22,232
Adoption of HKAS 17	–	(2,786)	–	–	–	(2,786)
At 1 January 2005, as restated	–	10,090	314	6,646	2,396	19,446
Exchange rate adjustments	–	260	–	170	46	476
Additions	593	23	–	508	119	1,243
Disposals	–	–	–	(62)	(302)	(364)
At 31 December 2005	<u>593</u>	<u>10,373</u>	<u>314</u>	<u>7,262</u>	<u>2,259</u>	<u>20,801</u>
Comprising:						
At cost	593	–	314	7,262	2,259	10,428
At valuation	–	10,373	–	–	–	10,373
	<u>593</u>	<u>10,373</u>	<u>314</u>	<u>7,262</u>	<u>2,259</u>	<u>20,801</u>
DEPRECIATION AND IMPAIRMENT						
At 1 January 2005	–	2,268	140	3,530	1,999	7,937
Adoption of HKAS 17	–	(263)	–	–	–	(263)
At 1 January 2005, as restated	–	2,005	140	3,530	1,999	7,674
Exchange rate adjustments	–	52	–	90	39	181
Charge for the year	–	554	63	717	159	1,493
Written off upon disposal	–	–	–	(51)	(302)	(353)
At 31 December 2005	<u>–</u>	<u>2,611</u>	<u>203</u>	<u>4,286</u>	<u>1,895</u>	<u>8,995</u>
NET BOOK VALUES						
At 31 December 2005	<u>593</u>	<u>7,762</u>	<u>111</u>	<u>2,976</u>	<u>364</u>	<u>11,806</u>
At 31 December 2004	<u>–</u>	<u>8,085</u>	<u>174</u>	<u>3,116</u>	<u>397</u>	<u>11,772</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

14. 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\$3.63 million (2004: HK\$4.94 million).

The Group has pledged buildings having a net book value of approximately HK\$7.76 million (2004: HK\$10.61 million) to secure general banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Development cost HK\$'000
The Group	
COST	
At 1 January 2005	13,795
Exchange rate adjustments	212
Additions	2,394
Disposal	(29)
	<hr/>
At 31 December 2005	16,372
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 January 2005	1,926
Exchange rate adjustments	56
Charge for the year	558
	<hr/>
At 31 December 2005	2,540
	<hr/>
NET BOOK VALUES	
At 31 December 2005	13,832
	<hr/>
At 31 December 2004	11,869
	<hr/>
The Company	
COST	
At 1 January 2005 and 31 December 2005	3,840
	<hr/>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. LEASE PREMIUM FOR LAND

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Net book value at 1 January		
– as previously reported	–	–
– adoption of HKAS 17	1,168	1,196
Net book value at 1 January, as restated	1,168	1,196
Exchange rate adjustment	30	–
	1,198	1,196
Amortisation for the year	(28)	(28)
Net book value at 31 December	1,170	1,168
Current portion	(28)	(27)
Non-current portion	1,142	1,141

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

17. INTERESTS IN SUBSIDIARIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	44,207	39,969
	44,208	39,970

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries as at 31 December 2005 are set out as follows:

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held		Place of incorporation/ registration	Principal activities
		Direct	Indirect		
Lee's Pharmaceutical International Limited	US\$1	100%	–	The British Virgin Islands	Investment holding
Lee's Pharmaceutical (HK) Limited	HK\$18,400,000	–	100%	Hong Kong	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd. ("Zhaoke") Formerly know as Hefei Siu-Fung USTC Pharmaceutical Company Limited	US\$2,000,000	–	100%	PRC	Manufacture and sale of pharmaceutical products
Lee's Pharmaceutical (China) Limited	US\$1	–	100%	The British Virgin Islands	Not yet commenced business
Lee's Pharmaceutical (Asia) Limited	HK\$2	–	100%	Hong Kong	Trading of pharmaceutical products
Lee's Diagnostic International Limited	HK\$1	–	100%	The British Virgin Islands	Not yet commenced business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

18. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	159	225
Work-in-progress	520	96
Finished goods	3,072	3,561
	<u>3,751</u>	<u>3,882</u>

Included above are raw materials which are carried at net realisable value of HK\$Nil (2004: Nil) at the balance sheet date.

19. TRADE RECEIVABLES

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

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
1-90 days	3,044	3,065
91-180 days	616	460
181-365 days	112	112
Over 365 days and under 3 years	48	67
	<u>3,820</u>	<u>3,704</u>
Less: Allowance for bad and doubtful debts	(104)	(123)
	<u>3,716</u>	<u>3,581</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

20. TRADE PAYABLES

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
1-90 days	437	9
91-180 days	5	84
181-365 days	25	1
Over 365 days	42	—
	<u>509</u>	<u>94</u>

21. SHORT TERM BORROWINGS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Bank loans, secured by:		
The Group's buildings	3,647	—
Other loans, secured by:		
The Group's buildings	2,879	4,837
	<u>6,526</u>	<u>4,837</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. SHARE CAPITAL

	Number of ordinary shares of HK\$0.05 each		Amount	
	2005	2004	2005 HK\$'000	2004 HK\$'000
Authorised:				
Ordinary shares of HK\$0.05 each	1,000,000,000	500,000,000	50,000	25,000
Issued and fully paid:				
Beginning of the year	346,225,000	289,225,000	17,311	14,461
Allotment	–	57,000,000	–	2,850
End of the year	346,225,000	346,225,000	17,311	17,311

23. RESERVES

	Share premium HK\$'000	Merger difference HK\$'000	Share-based Compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Company					
At 1 January 2004	24,887	9,200	–	(5,953)	28,134
Adoption of HKFRS 2	–	–	103	(103)	–
At 1 January 2004, as restated	24,887	9,200	103	(6,056)	28,134
Shares issued at premium	8,664	–	–	–	8,664
Share issue expenses	(324)	–	–	–	(324)
Employee share option benefits	–	–	152	–	152
Net loss for the year	–	–	–	(2,914)	(2,914)
At 31 December 2004	33,227	9,200	255	(8,970)	33,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. RESERVES (continued)

	Share premium HK\$'000	Merger difference HK\$'000	Share-based Compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Company					
At 1 January 2005	33,227	9,200	–	(8,715)	33,712
Adoption of HKFRS 2	–	–	255	(255)	–
At 1 January 2005, as restated	33,227	9,200	255	(8,970)	33,712
Warrant issue net expenses	(731)	–	–	–	(731)
Employee share option benefits	–	–	188	–	188
Net loss for the year	–	–	–	(1,504)	(1,504)
At 31 December 2005	<u>32,496</u>	<u>9,200</u>	<u>443</u>	<u>(10,474)</u>	<u>31,665</u>

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 5.

The Company's reserves available for distribution to shareholders as at 31 December 2005 was HK\$31.67 million (2004: HK\$33.71 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, share-based compensation reserve and accumulated losses. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

24. COMMITMENTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
(a) Capital commitments in respect of acquisition of property, plant and equipment		
Contracted amount	2,906	—
Less: consideration paid	(593)	—
	<u>2,313</u>	<u>—</u>
(b) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	631	805
In more than one year but not exceeding five years	101	450
	<u>732</u>	<u>1,255</u>

25. 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 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,829,000 (2004: 12,929,000) representing 4.86% (2004: 3.73%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. SHARE OPTIONS SCHEME (continued)

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

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

Date of grant	Outstanding at 01.01.2005	Granted/ exercised/ cancelled/ lapse during the year	Outstanding at 31.12.2005	Exercise period	Exercise price per share
<i>Category I: Directors</i>					
26.06.2002	1,600,000	–	1,600,000	26.06.2004- 25.06.2012	HK\$0.280
<i>Category II: Employees</i>					
26.06.2002	400,000	(350,000)	50,000	26.06.2004- 25.06.2012	HK\$0.280
	<u>2,000,000</u>	<u>(350,000)</u>	<u>1,650,000</u>		

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26.06.2004 to 25.06.2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26.06.2005 to 25.06.2012 (both days inclusive).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. SHARE OPTIONS SCHEME (continued)

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

Date of grant	Outstanding at 01.01.2005	Granted	During the year Exercised/ cancelled	Lapsed	Outstanding at 31.12.2005	Exercise period	Exercise price per share
<i>Category I: Directors</i>							
13.01.2003	3,279,000	-	-	-	3,279,000	13.07.2003- 12.01.2013	HK\$0.405
25.06.2004*	300,000	-	-	-	300,000	25.12.2004- 24.06.2014	HK\$0.218
11.07.2005#	-	1,200,000	-	-	1,200,000	11.01.2006- 10.07.2015	HK\$0.159
<i>Category II: Employees</i>							
13.01.2003	550,000	-	-	(150,000)	400,000	13.07.2003- 12.01.2013	HK\$0.405
25.06.2004*	6,800,000	-	-	(550,000)	6,250,000	25.12.2004- 24.06.2014	HK\$0.218
11.07.2005#	-	3,750,000	-	-	3,750,000	11.01.2006- 10.07.2015	HK\$0.159
	<u>10,929,000</u>	<u>4,950,000</u>	<u>-</u>	<u>(700,000)</u>	<u>15,179,000</u>		

* The options are vested in 2 tranches as to (i) 50% exercisable not less than six months from the date of grant but not more than ten years, i.e. during the period from 25.12.2004 to 24.06.2014 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than fifteen months from the date of grant but not more than ten years, i.e. during the period from 25.09.2005 to 24.06.2014 (both days inclusive).

The options are vested in 2 tranches as to (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 and (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. SHARE OPTIONS SCHEME (continued)

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

	Outstanding at 01.01.2005	Granted	During the year Exercised/ cancelled	Lapsed	Outstanding at 31.12.2005
<i>Directors</i>					
Lee Siu Fong	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	289,000	–	–	–	289,000
Li Xiaoyi	2,890,000	–	–	–	2,890,000
Chan Yau Ching, Bob	400,000	100,000	–	–	500,000
Lam Yat Cheong	–	300,000	–	–	300,000
Tsim Wah Keing, Karl	–	300,000	–	–	300,000
Mauro Bove	–	500,000	–	–	500,000
Directors' total	5,179,000	1,200,000	–	–	6,379,000
<i>Employees</i>					
	7,750,000	3,750,000	–	(1,050,000)	10,450,000
Grand total	<u>12,929,000</u>	<u>4,950,000</u>	<u>–</u>	<u>(1,050,000)</u>	<u>16,829,000</u>

Total consideration received during the year from Directors and employees for taking up the options granted amounted to HK\$6 (2004: HK\$23).

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

26. PLEDGED OF ASSETS

At the balance sheet date, the Group pledged buildings with an aggregate amount of HK\$7.76 million (2004: HK\$10.61 million) and fixed deposits of HK\$2.01 million (2004: HK\$2.01 million) to banks and other institutions to secure general banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

27. 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	2005 HK\$'000	2004 HK\$'000
Eco-Globe Development Limited	(a)	Sales of pharmaceutical product	5	42
Cremalpina Co., Limited	(b)	Sales of other product	3	56
Sigma-Tau Group	(c)	Purchase of pharmaceutical product	6,066	N/A

Notes:

- (a) The directors, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi, have beneficial interests in Eco-Globe Development Limited.
- (b) The directors, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi, have beneficial interests in Cremalpina Co. Limited.
- (c) Defiante Farmaceutica, Lda is a shareholder of the Company which is also a member of Sigma-Tau Group.

28. 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, which contribution is matched by employees.

The total cost charged to income of HK\$126,000 (2004: HK\$132,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2005, contributions of HK\$25,000 (2004: HK\$12,000) due in respect of the reporting period had not been paid over to the schemes.

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				
	2005 HK\$'000	(Restated) 2004 HK\$'000	(Restated) 2003 HK\$'000	(Restated) 2002 HK\$'000	2001 HK\$'000
Turnover	38,528	30,395	18,498	11,644	10,346
Cost of sales	(13,216)	(10,381)	(5,134)	(3,200)	(2,466)
Gross profit	25,312	20,014	13,364	8,444	7,880
Other revenue	1,770	623	714	216	737
Selling and distribution expenses	(14,614)	(13,207)	(6,850)	(5,030)	(5,383)
Administrative expenses	(11,913)	(10,294)	(12,126)	(8,384)	(5,232)
Profit (loss) from operations	555	(2,864)	(4,898)	(4,754)	(1,998)
Gain on disposal of technology of a developing product	–	–	–	–	1,396
Finance costs	(446)	(565)	(593)	(596)	(715)
Profit (loss) before taxation	109	(3,429)	(5,491)	(5,350)	(1,317)
Taxation	44	36	51	27	–
Profit (loss) before minority interest	153	(3,393)	(5,440)	(5,323)	(1,317)

ASSETS AND LIABILITIES

	31 December				
	2005 HK\$'000	(Restated) 2004 HK\$'000	(Restated) 2003 HK\$'000	(Restated) 2002 HK\$'000	2001 HK\$'000
Non-current assets	30,680	24,782	24,900	28,026	17,440
Current assets	16,162	23,259	18,307	19,026	5,699
Current liabilities	(10,562)	(11,666)	(10,696)	(12,303)	(8,360)
Net current assets (liabilities)	5,600	11,593	7,611	6,723	(2,661)
Non-current liabilities	(620)	(648)	(4,648)	(1,497)	(10,716)
Net assets	35,660	35,727	27,863	33,252	4,063

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 Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong on Wednesday, 26 April 2006 at 4:00 p.m. for the following purposes:

As ordinary business:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2005.
2. To re-elect the retiring directors and to authorize the board of directors (the "Board") to fix the directors' remuneration.
3. To re-appoint auditors and to authorize the Board to fix their remuneration.

As special business:

4. To consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions: –
 - A. **"THAT**
 - (a) subject to paragraph 4A(b) below, a general mandate be and is hereby generally and unconditionally approved to the directors of the Company (the "Directors") to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;

NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph 4A(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly: –
 - (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, or in any territory applicable to the Company); or
 - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the Articles of Association of the Company;
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

B. **“THAT**

- (a) subject to paragraph 4B(b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own shares on the Growth Enterprise Market (“GEM”) of the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed (as amended from time to time), be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph 4B(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 4B(a) shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

- C. **“THAT** conditional upon Ordinary Resolutions 4A and 4B being passed, the general mandate granted to the Directors pursuant to Ordinary Resolution 4A to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal

NOTICE OF ANNUAL GENERAL MEETING

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 4B, 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.”

5. To consider and, if thought fit, pass the following resolution as a Special Resolution:–

“**THAT** the Articles of Association be and is hereby amended by deleting the first sentence of Article 112 and substituting the following therefor:

“At each annual general meeting, one-third of the Directors for the time being or, if their number is not 3 or a multiple of 3, the number nearest to one-third shall retire from office provided that notwithstanding anything herein, every Director shall be subject to retirement by rotation at least once every three years.” ”

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

Hong Kong, 20 March 2006

Notes:

- (1) 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.
- (2) A form of proxy for use at the above meeting is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the Company’s Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th 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.
- (3) A circular containing further details regarding items 2, 4 and 5 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to shareholders together with 2005 Annual Report.