

The logo for Lee's Pharm. features a stylized 'L' composed of three vertical bars in shades of green and blue, followed by the text 'LEE'S PHARM.' in white, bold, uppercase letters on a blue rectangular background.

LEE'S PHARM.

李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited

李 氏 大 藥 廠 控 股 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

* 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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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 subsidiary in the PRC, Hefei Siu-Fung USTC Pharmaceutical Company Ltd. ("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-compliant 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
Gliconorm®	Italy		✓	Diabetes
ArginMax®	USA		✓	Health supplement
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

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

Ms. Mok Sau Man, Joanna

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, Ugland 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 and Associates (Hong Kong law)

Beijing Wuhuan Law Firm (PRC law)

SPONSOR

Kingsway Capital Limited

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

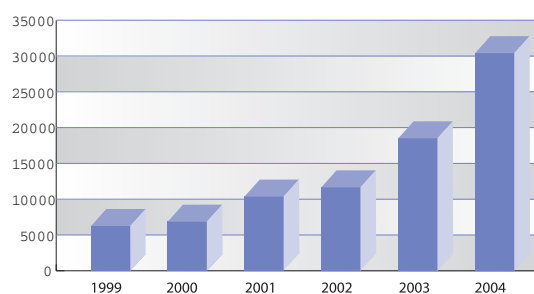
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	30,395	18,498	11,644	10,346	6,852
Gross profit	20,014	13,364	8,444	7,880	4,914
Loss from operations	(2,743)	(4,826)	(4,785)	(1,998)	(5,204)
Current ratio	1.99	1.71	1.54	0.68	0.42

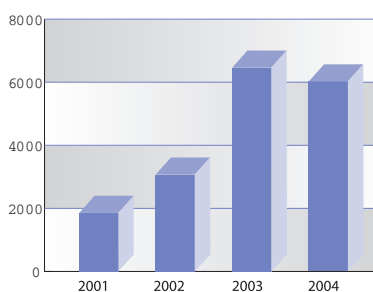
TURNOVER ANALYSIS:

	Three months ended 31 December		Twelve months ended 31 December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Proprietary products	5,879	3,759	21,503	17,421
License-in products	2,203	1,077	8,892	1,077
	<u>8,082</u>	<u>4,836</u>	<u>30,395</u>	<u>18,498</u>

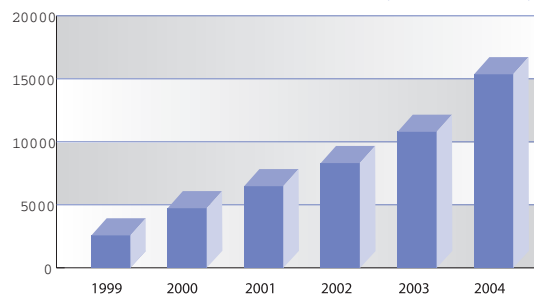
Turnover of the Group (HK\$'000)



Yallaferon - Turnover (HK\$'000)



Livaracine - Turnover (HK\$'000)



CHAIRMAN'S STATEMENT

During the year 2004, the Group had continued to strive for improvement in every aspect of its business. The efforts made it possible for the Group to carry on the rapid growth momentum of 2003 despite a challenging environment for pharmaceutical industry in China.

On the sales and marketing front, a 64.32% increase in turnover over that of 2003 was achieved. The growth was not only driven by the existing two proprietary products, <Livaracine> and <Yallaferon>, which increased 44.39% and 3.66% in volume respectively, but also by the leap of sales of <Carnitene>, a product licensed from our partner Sigma-Tau which recorded a nearly five times increase over that of last year. The group has also intensified its knowledge-based product promotion efforts. During the year, its promotion team held more than 120 different sizes of seminars in more than 58 cities and areas, covering nearly 500 major hospitals. Such endeavors have contributed to a marked enhancement of brand awareness that helped to sustain the sales growth.

On the research and development front, approval for clinical study of our new drug <Protein-free Calf Blood Extract Eye Gelatin> was obtained from the State Food and Drug Administration of the PRC (the "SFDA") during the year and Phase II clinical study is ongoing. Approval was also obtained for clinical study of new indication of <Yallaferon> and an eight-centers study on cervicitis led by Beijing University Hospital is now underway. The development of the Group's several new drugs is proceeding on target and additional approvals for clinical studies are expected. Together with licensed products from overseas partners, the Group has over eight products under development and registration that will significantly augment its product portfolio in the near future.

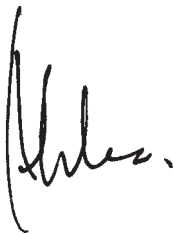
This year also celebrated the establishment of strategic partnership between the Group and Sigma-Tau Finanziaria Spa and its subsidiaries ("Sigma-Tau"), one of the biggest independent pharmaceutical companies in Italy. The investment of Sigma-Tau in the Group not only broadens the capital base of the Group, but also allows access to Sigma-Tau's expertise and experiences in worldwide drug development and marketing. As the Group is well positioned in China's pharmaceutical industry, the strategic alliance creates a great deal of synergy from which it could make the Group a much stronger player in China's competitive pharmaceutical market.

2004 again marked a continual improvement in manufacturing and quality control. The production output for the Group's best selling product <Livaracine> – lyophilized powder for injection of low molecular weight heparin calcium, increased more than 27.88%, from 1.04 million vials in 2003 to 1.33 million vials in 2004. During the year, the Group successfully passed the inspection of its workshop of lyophilized dosage form by SFDA's good manufacturing practice ("GMP") inspection team for renewal of GMP certification and the GMP certification was subsequently obtained. The successful renewal is a validation of the Group's commitment to good manufacturing practice and quality assurance during its pharmaceutical production process.

CHAIRMAN'S STATEMENT

Looking ahead, I am confident that the coming year will be a breakthrough year for the Group. Although the pharmaceutical market in China will remain challenging, the Group, with a broadened capital base and strategic partnerships, is better prepared and equipped to continue its growth momentum.

Finally, on behalf of the board (the "Board") of Directors (the "Directors"), I would like to take this opportunity to express my sincere appreciation to my fellow Directors and all the Group's staff for their efforts and commitments to the performance of the Group during the year and especially to our customers, banks, suppliers and shareholders of the Company ("Shareholders") for their continuing support.



Lee Siu Fong
Chairman

Hong Kong, 23 March 2005

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year 2004, the Group continued the rapid growth momentum achieved in 2003. Through the improvement in areas such as strategic partnerships and drug development, it has strengthened its position as a dynamic and strong player in China's pharmaceutical market.

Corporate

The Group formed a strategic partnership with Sigma-Tau, one of the largest independent pharmaceutical companies in Italy through the subscription for the 57,000,000 new shares of the Company by Defiante Farmaceutica, Lda ("Defiante"), one of the subsidiaries of Sigma-Tau. The investment was completed in August 2004, and the net proceed from the subscription of HK\$11.20 million was received and was used as working capital of the Group. The investment of Sigma-Tau in the Group not only broadens the capital base of the Group, but also allows access to Sigma-Tau's expertise and experiences in worldwide drug development and marketing. More importantly, such strategic partnership could transform the Company into a stronger player in China's pharmaceutical market and propel the Group onto a new level.

Drug development

The Group continued its efforts to expand clinical applications for its proprietary drugs. During the year, approvals were received from the SFDA for conducting clinical studies on Yallaferon's effect on cervical erosion, a serious health problem for women. The Group's multi-center clinical study for such treatment has started to recruit patient during the third quarter of 2004.

Approval of clinical study for the Group's new drug <Protein-free Calf Blood Extract Eye Gelatin> was obtained. The product can cure ulcer, burn wound and radiation-induced diseases with efficacy. As the leading product now in China market is an imported one from Europe which is limited to use due to the mad cow disease problem. Our new product could therefore fill the unmet need of imported drugs soon after its commercialization.

Requested supplemental data for <Anti-fungus Peptide>, <Declotana> and <Hemocoagulase> has been prepared and submitted to the SFDA for further review during the year. For <Hemocoagulase>, approval for clinical study is expected in the third quarter of 2005. However, further experiment may be needed for <Declotana> as the understanding for its action mechanism is deepened. For <Anti-fungus Peptide>, it has been indicated that the approval for clinical study is imminent. However, it is still waiting for a formal approval notice from the SFDA for starting the clinical study.

MANAGEMENT DISCUSSION AND ANALYSIS

Clinical studies of <Yallaferon> for herpes zoster has been successfully completed with results that clearly demonstrate Yallaferon's efficacy and safety in treating herpes zoster. Application is being made to the SFDA to expand the indications of <Yallaferon> which will provide additional growth opportunities for <Yallaferon>.

Products registration

Preparation is underway to register <Acetyl-L-Carnitine>, a product indicated for peripheral neuropathy, and <Propionyl-L-Carnitine>, a product indicated for Intermittent Claudication. Both products are the results of our strategic partnership with Sigma-Tau.

Registration of a "second generation" low molecular weight heparin <Hibor> has also been commenced during the year and a complete Chinese dossier will be submitted in the first quarter of 2005.

Furthermore, the Group is currently in discussion with companies in the United States of America ("US") and Europe for registrations and distribution of several proprietary products in China. Such efforts will significantly augment the Group's product portfolio in the near future.

Partnerships

The Group has strengthened its strategic partnership with Sigma-Tau through allotment of 57 million new shares to Sigma-Tau Group during 2004 which represented 16.46% of the equity interest of the Company and Sigma-Tau now becomes a substantial shareholder of the Company. Moreover, pursuant to the resolution passed by the Shareholders on 11 March 2005, warrants to subscribe for 69,245,000 shares will be issued to Defiante which allows Sigma-Tau Group to further increase its participation in the Group.

During the year, the Group has obtained an exclusive distribution rights on <Irrodan Retard>, a product which has already registered in the PRC from an Italian pharmaceutical company, Biomedica Foscama S.P.A., for China market.

The Group has obtained an exclusive distribution rights on <Hibor>, a "second generation" injectable low molecular weight heparin in pre-filled syringe form from a Spanish pharmaceutical company, Phivor Pharmaceutical Research S.L., for PRC and Hong Kong market.

During the year, the Group has initiated discussion with six 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 2005 which could result in further broadening of the Group's product and revenue base.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and marketing

For 2004, the Group has strengthened its marketing team and intensified its knowledge-based promotion. It held 120 seminars with either opinion leaders from China or overseas, or the Group's own professional speakers in over 500 major hospital throughout 50 cities and provinces in China. The efforts have significantly enhance the brand awareness of the Group and provided a driving force for sustainable rapid growth.

Also, great effort has been devoted to expand the sales and marketing team. By the end of 2004, the Group had 25 business development people stationed in every major province and region in China. The extensive coverage of market made it possible for the Group to participate in most, if not all of the tenders for its products which has become a prerequisite for selling ethical pharmaceutical products in China. In total, the Group participated in 175 tenders for its three products with a successful rate of 85%.

Among its successful tenders, the Group has won public tenders for <Livaracine> in Shanghai and Beijing, PRC. Moreover, <Carnitene> has also won the tender of Beijing. Beijing is the second largest industrial center in China after Shanghai and one of the top five pharmaceutical markets. 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

Financial Performance

For the year ended 31 December 2004, the Group's turnover amounted to approximately HK\$30.40 million (2003: HK\$18.50 million), representing an increase of approximately HK\$11.90 million or 64.32% as compared with last year. The increase in turnover was driven by both the sales of new license-in products and steady sales growth of 23.43% of existing proprietary products.

During the year, sales of proprietary drug <Livaracine> recorded a growth of approximately HK\$4.57 million or 42.31%. The persistent sales increment of <Livaracine> is the attribute of the wide acceptance by medical professionals in the PRC.

Regardless of the effect of SARS which increase fourfold the sales volume in the second quarter of 2003, sales of the Group's another flagship product <Yallaferon> improved significantly, seeing a 106.12% increase by average over last year.

For the year 2004, sales of license-in product <Carnitene> was approximately HK\$8.72 million accounting for 28.69% of the Group's total turnover. Since the product was only launched in November 2003, last year's turnover was only HK\$1.07 million representing 5.78% of the total turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

Although the gross profit margin was reduced to 65.85% as compared to 72.25% last year simply because the gross profit margin of license-in product was lower than proprietary product, the gross profit marked an increase of approximately HK\$6.65 million or 49.76% as compared with last year.

Selling and distribution expenses to turnover ratio increased from 37.03% in 2003 to 43.45% in 2004 due to the newly set-up of sales and marketing department in Hong Kong for the Group's license-in product to be launched in Hong Kong market.

Better cost control was also achieved during the year, it was evidenced by not only a decrease of administrative expenses to turnover ratio from 65.16% in 2003 to 33.47% in 2004, but also a net reduction of approximately HK\$1.88 million.

Net loss for the year continued the trend of narrowing and recorded a 39.06% decrease of approximately HK\$2.10 million. The improvement in loss was a result of significant increase in turnover and tight control over expenses.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2004.

Liquidity and Financial Resources

During the year under review, the Group financed its operations by proceeds from the Company's initial public offer in 2002 and net proceeds amounting to HK\$11.2 million from subscription of Shares pursuant to the subscription agreement dated 30 July 2004 entered into between the Company and Defiante.

As of 31 December 2004, the Group had cash and bank balances and the pledged bank deposits of approximately HK\$12.54 million (2003: HK\$12.53 million). In terms of liquidity, the current ratio (current assets/current liabilities) was improved from 1.71 times in 2003 to 1.99 times in 2004. 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, development requirements and investments in future.

As at 31 December 2004, the Group has long term debts of approximately HK\$0.85 million and shareholders' funds of approximately HK\$36.98 million. Its gearing ratio (long term debts to shareholders' funds plus long term debts) improved significantly from 14.31% as at 31 December 2003 to 2.26% as at 31 December 2004.

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, US dollars and European 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 2004, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK\$10.61 million (2003: HK\$11.13 million) have been pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of about HK\$2.01 million were pledged as securities for banking facilities as at 31 December 2004 (2003: HK\$8.33 million).

Contingent Liabilities

As at 31 December 2004, the Company had issued corporate guarantees of HK\$8.00 million (2003: HK\$5.00 million) and pledged deposits of HK\$2.01 million (2003: HK\$8.33 million) to banks in respect of banking facilities granted to its subsidiary of which approximately HK\$6.04 million had been utilized.

Employee Information

As at 31 December 2004, the Group had 165 employees (2003: 149 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\$8.85 million (2003: HK\$7.48 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

The shares of the Company were listed on the GEM of the Stock Exchange with effect from 15 July 2002.

Pursuant to a special resolution passed on 13 August 2004, a subscription agreement relating to subscription of 57,000,000 new shares at a subscription price of HK\$0.202 per new share was approved. The completion of the subscription took place on 17 August 2004 with 57,000,000 new shares of the Company being allotted and issued to Defiante. The said shares rank pari passu in all respects with the existing ordinary shares of the Company.

Material Acquisitions and Disposals/Future Plans for Material Investments

The Group had no material acquisitions or disposals during the year ended 31 December 2004. It has no plans for material investments or capital assets other than those set out in the prospectus of the Company dated 3 July 2002 (the “Prospectus”).

BUSINESS OUTLOOK

After year end, the Company is preparing to issue warrants to Defiante pursuant to the subscription agreement. The warrants shall entitle Defiante to subscribe for up to 69,245,000 shares at the exercise price of HK\$0.224 per share. The Board considers that the subscription and the issue of warrants provide an opportunity to raise additional funds with greater flexibility for the benefit of the Lee’s Group’s working capital for future investment purposes while strengthening its financial position, and broadening the capital base of the Company. More importantly, such strategic partnership could transform the Company into a stronger player in China’s pharmaceutical market and propel the Lee’s Group onto a new level. The Directors consider that the Sigma-Tau Group will, through these transactions, also bring to the Company the benefit of its almost 50 years of experience in pharmaceutical business worldwide, permitting the Lee’s Group’s possible access to its strong research and development expertise and new products and technologies. This may significantly improve the product variety of the Lee’s Group to better leverage on its established sales and distribution network in the PRC.

The proceeds for the exercise in full of the warrants (69,245,000 shares fall to be issued) will be approximately HK\$15.5 million. At present, it is still the Directors’ intention that all such proceeds, together with those raised through the subscription, will be used as working capital to further expand the Lee’s Group’s sales and distribution network in the PRC, acquire new products and technologies and to upgrade the existing manufacturing facilities, and for future investment purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Going forward, the Group will continue to broaden the revenue base by launching additional products in the PRC and Hong Kong market apart from the three existing proprietary drugs and the four license-in drugs. Moreover, in the coming year, the Group will devote much marketing and promotional efforts for its products to the best extent possible.

The Group is confident of its business outlook in 2005 and believes that it will be the year of breakthrough. With its strategic partnership with Sigma-Tau and expected strong performance of both its self-developed products and licensed products, the Group is well positioned to continue the rapid growth momentum.

USE OF PROCEEDS

The net proceeds after deducting the listing expenses had been utilized in line with the terms stipulated in the Prospectus and applied as follows:

	Planned use of proceeds according to the Prospectus	Actual amount utilized from 15 July 2002 (the date of listing) to 31 December 2004	<i>Notes</i>
	HK\$'000	HK\$'000	
For production	5,674	1,874	(a)
For sale and marketing	7,441	4,043	(b)
For research and development	2,893	2,324	(c)
Repayment of third party loans	2,984	1,781	(d)
For additional working capital	1,008	8,349	(e)
	<u>20,000</u>	<u>18,371</u>	

Unused proceeds of HK\$1.63 million as at 31 December 2004 are kept as bank deposit and the Directors believe that the unused portion will be used for future working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (a) In view of the level of sales increment and the progress of new products development, the Directors delayed the budgeted expansion of various production facilities and systems. It is expected new equipment for expansion may not be required until 2005. Please also refer to “Comparison of Business Objectives and Actual Progress” section for further details.
- (b) The original planned fund for advertising and marketing of new products has not been used as the progress of new products development has been delayed due to various reasons. For details, please refer to “Comparison of Business Objectives and Actual Progress” section.
- (c) The funding for research and development has not been used up as the development progress of various projects has been delayed due to reasons stated in “Comparison of Business Objectives and Actual Progress”.
- (d) The loan due to a third party lender with expiry in December 2002 has not been fully repaid until March 2005.
- (e) Proceed used for working capital has been raised due to consistent operating loss of the Group.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGRESS

The following is a comparison of the actual business progress to the business objectives as set out in the Prospectus:

Business Objectives up to 31 December 2004 as stated in Prospectus	Actual Progress up to 31 December 2004
<p>Production:</p> <ul style="list-style-type: none"> • Install and commission new purification system for purification workshop • Purchase new equipment for raw material workshop to increase the production capacity • Install and commission imported lyophilized machine to increase the production capacity • Install and commission imported filling machine for gel workshop • To establish a GMP-compliant workshop for oral formulation 	<ul style="list-style-type: none"> • Due to the delay of product approval for Declotana, the installation of this system has been postponed. Timing for installing this system will depend on the progress of drug approval process. • As a result of a more cost-effective manufacturing process, there is no longer a need for new equipment in the near future. • Domestic lyophilized machine instead of imported one had been installed and commissioned due to cost effectiveness. Maximum production capacity has been increased by 100%. • Since there is still enough capacity available, the installation will be postponed until the needs arise. • Due to the delay of development of Oral Livaracine, the establishment will be postponed until the need arise.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGRESS

Business Objectives up to 31 December 2004 as stated in Prospectus	Actual Progress up to 31 December 2004
<p>Sales and marketing:</p> <ul style="list-style-type: none"> • Establish Chengdu and Wuxi branch office to expand the Group's sales efforts • Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts • Launch the following products into the market: <ul style="list-style-type: none"> (i) Hemocoagulase; (ii) Protein-free Calf Blood Extract Eye Gelatin; (iii) Livaracine for new indication; (iv) Anti-fungus Peptide; (v) Declotana; and (vi) topical gel Livaracine 	<ul style="list-style-type: none"> • Having reviewed the Group's sales and marketing strategy from time to time, the Group has decided that current focus should be on strengthening the existing offices of Guangzhou, Shanghai and Beijing, rather than setting up new offices in Chengdu and Wuxi. The Group believes that such approach is the most cost effective and brings the most positive impact on the Group's sales and marketing efforts. Since then, the Group has more than doubled the resources to those existing offices. • Sales and marketing team of Guangzhou sales office and Shanghai branch office have been restructured during the year under review. Additional staffs of more than 50% have been recruited to strengthen the whole sales team in the PRC. • Since the new products were not ready for market due to delay in research and development progress as discussed below, the respective launching exercise was postponed accordingly.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGRESS

Business Objectives up to 31 December 2004 as stated in Prospectus	Actual Progress up to 31 December 2004
<p>Research and development:</p> <ul style="list-style-type: none"> • Declotana: <ul style="list-style-type: none"> (i) Submit application for clinical studies; (ii) Enter phase II clinical studies • Topical gel Livaracine: <ul style="list-style-type: none"> (i) Submit application for clinical studies; (ii) Commence phase II clinical studies • Hemocoagulase: submit application for clinical studies • Protein-free Calf Blood Extract Eye Gelatin: commence phase II clinical studies • Livaracine for new indication: commence phase II clinical studies • Anti-fungus Peptide: <ul style="list-style-type: none"> (i) Commence phase I clinical studies (ii) Commence phase II clinical studies • Heparanase Inhibitor: commence phase II clinical studies • Oral Livaracine: commence phase II clinical studies 	<ul style="list-style-type: none"> • Additional data was requested by the SFDA and part of requested data was subsequently submitted. Rest of the requested data is under preparation and is expected to be submitted before the end of second quarter 2005. • Due to the market situation, the development work has been suspended. • Additional data was requested by the SFDA. Experiments have been carried out and the data has been compiled. New submission is being made and approval for clinical study is expected in third quarter of 2005. • Phase II clinical studies commenced in August 2004. • The commencement date of the study has been pushed back due to the Group's need to priorities its resources. The timing of the study has yet to be set. • It has been indicated that the approval for clinical study is imminent. However, it is still waiting for the formal approval notice from SFDA for starting the clinical study. • Project plan is under formulation now. Additional studies are needed before initiation of clinical study. • The product is still under development in partnership with a Spanish company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 48

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, 51

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, 42, PhD

Dr. Li Xiao Yi (“Dr. Li”) is also a director of Hefei Siu-Fung USTC Pharmaceutical Company Ltd. (“Zhaoke”), the Group’s principal operating arm. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director & audit committee, 42, 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. He had been a finance professor and an active researcher and consultant. Dr. Chan is also an executive director of Celestial Asia Securities Holdings Limited, a company listed in Hong Kong. Dr. Chan does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Lam Yat Cheong

Independent non-executive Director & audit committee, 43, CPA(practising), ACCA, 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 18 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, 46, PhD, MPhil, BSc.

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

SENIOR MANAGEMENT

Wang Xian Shun

Chief engineer, 68, 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, 46

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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mok Sau Man, Joanna

Chief financial officer, company secretary & qualified accountant, MBA, CPA, FCCA

Ms. Mok Sau Man, Joanna joined the Group in March 2001 and is responsible for financial management, reporting and secretarial matters. She has over ten years' experience in auditing, accounting and financial fields and is an associate member of the Hong Kong Institute of Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountants.

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 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 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 35.

The Board does not recommend the payment of any dividend for the year ended 31 December 2004.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 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 and 69 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 13 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 20 and 23 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 21 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 2004, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$33.71 million. This includes the Company's share premium in the amount of HK\$33.23 million at 31 December 2004, 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 31.12% in aggregate for the Group's total turnover for the year (2003: 21.73%). The largest customer of the Group accounted for approximately 18.35% of the Group's total turnover (2003: 6.14%).

Purchase from the Group's five largest suppliers accounted for approximately 90.59% in aggregate for the Group's total purchases for the year (2003: 73.71%). The largest supplier of the Group accounted for approximately 63.25% of the Group's total purchases (2003: 23.77%).

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

Independent non-executive directors:

Chan Yau Ching, Bob

Lam Yat Cheong (appointed on 1 July 2004)

Tsim Wah Keung, Karl (appointed on 20 September 2004)

Leung Yun Fai (resigned on 30 June 2004)

In accordance with article 112 of the Company's articles of association, Ms. Lee Siu Fong and Dr. Li Xiaoyi will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

The directors of the Company, including the independent non-executive directors, but excluding the Managing Director, Ms. Leelalertsuphakun Wanee, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

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.

The service contract of an independent non-executive director, Dr. Chan Yau Ching, Bob, dated 14 January 2002, have 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.

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. Particulars of the Company’s Pre-IPO Share Option Scheme and Share Option Scheme are set out in note 23 to the financial statements.

Movement of share option during the year ended 31 December 2004:

Grantees	Date of Grant	Number of share options				Outstanding at 31.12.2004
		Outstanding at 1.1.2004	Granted	Exercised/ cancelled	Lapsed	
<i>Director</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
Chan Yau Ching, Bob	13.01.2003	100,000	-	-	-	100,000
	25.06.2004	-	300,000	-	-	300,000
Leung Yun Fai	13.01.2003	100,000	-	-	(100,000)	-
Sub-total of Directors		<u>4,979,000</u>	<u>300,000</u>	<u>-</u>	<u>(100,000)</u>	<u>5,179,000</u>
<i>Employees</i>						
	26.06.2002	400,000	-	-	-	400,000
	13.01.2003	550,000	-	-	-	550,000
	25.06.2004	-	6,800,000	-	-	6,800,000
Sub-total of employees		<u>950,000</u>	<u>6,800,000</u>	<u>-</u>	<u>-</u>	<u>7,750,000</u>
Grand total		<u>5,929,000</u>	<u>7,100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>12,929,000</u>

REPORT OF THE DIRECTORS

Notes:

1. Particulars of share options:

Date of Grant	Vesting period	Exercise period	Exercise price per share HK\$
26.06.2002	26.06.2002-25.06.2004	(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) unexercisable 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	13.01.2003-12.07.2003	13.07.2003-12.01.2013	0.405
25.06.2004	25.06.2004-24.12.2004	(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) unexercisable 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

2. No share options were exercised or cancelled during the year ended 31 December 2004.

3. (i) The closing price of the shares of the Company immediately before 25 June 2004 on which the options were granted was HK\$0.218.

(ii) Value of share options granted during the year ended 31 December 2004:

The Directors consider that it is not appropriate to disclose the value of options granted during the year ended 31 December 2004, since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of options based upon speculative assumptions would not be meaningful and would be misleading to shareholders.

4. The accounting policy adopted for share options is set out in note 23 to the financial statements.

Saved as disclosed above, as at 31 December 2004, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercised any rights to subscribe for any equity of the Company or any of its associated corporations.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31 December 2004, the following Directors and chief executives and their associates had interest 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 Securities and Futures Ordinance (the "SFO")) which were required:

- (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO; or
- (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or
- (c) pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

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	Interest of corporation	(i)	163,290,625	163,290,625	47.16
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
Chan Yau Ching, Bob	Beneficial owner	400,000	400,000
		<u>5,179,000</u>	<u>5,179,000</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	48.30
Leelalertsuphakun Wanee	163,290,625	289,000	163,579,625	47.25
Li Xiaoyi	16,000,000	2,890,000	18,890,000	5.46
Chan Yau Ching, Bob	–	400,000	400,000	0.12

REPORT OF THE DIRECTORS

2. *Short positions*

No short positions of Directors and chief executives 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors and Chief Executives' Interests" above and the share option scheme disclosures in note 23 to the financial statements, at no time during the year 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 2004, 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

REPORT OF THE DIRECTORS

(b) Share options

Name	Capacity and nature	Notes	Number of options held	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	<u>2,890,000</u>	<u>2,890,000</u>

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 2004, 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.

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 the GEM Listing Rules. Particulars of the transactions are disclosed in note 25 to the financial statements.

The independent non-executive Directors confirm that the transaction has 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 are 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 2004.

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 2004 (2003: Nil).

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules throughout the year ended 31 December 2004.

SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, 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 5.46 to 5.68 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 dealings throughout the year ended 31 December 2004.

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.

SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated 13 February 2004 entered into between the Company and Kingsway Capital Limited ("Kingsway"), Kingsway is entitled to receive a fee for acting as the Company's continuing sponsor for the period from 16 February 2004 to 31 December 2004 or until the sponsor agreement is terminated upon the terms and condition set out therein.

REPORT OF THE DIRECTORS

Kingsway has confirmed that save for the above, (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group as at 31 December 2004.

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 2004.

AUDIT COMMITTEE

The Company set up an audit committee on 26 June 2002 with written terms of reference in compliance with Rules 5.28 to 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, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company. Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl were appointed as the independent non-executive director and member of the audit committee of the Company with effect from 1 July 2004 and 20 September 2004 respectively.

During the year ended 31 December 2004, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with the external auditors and provided advices and recommendations to the Board.

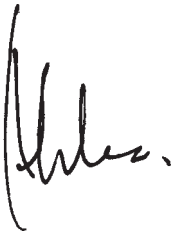
The Group's audited results for the year ended 31 December 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REPORT OF THE DIRECTORS

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

A handwritten signature in black ink, appearing to read 'Lee Siu Fong', is positioned above the printed name and title.

Lee Siu Fong
Chairman

Hong Kong, 23 March 2005

REPORT OF THE AUDITORS

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 35 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 Statements of Auditing Standards 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 2004 and of the loss 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
23 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3	30,395	18,498
Cost of sales		<u>(10,381)</u>	<u>(5,134)</u>
Gross Profit		20,014	13,364
Other revenue	5	623	714
Selling and distribution expenses		(13,207)	(6,850)
Administrative expenses		<u>(10,173)</u>	<u>(12,054)</u>
Loss from operations	6	(2,743)	(4,826)
Finance costs	7	<u>(565)</u>	<u>(593)</u>
Loss before taxation		(3,308)	(5,419)
Taxation	10	<u>40</u>	<u>56</u>
Loss before minority interest		(3,268)	(5,363)
Minority interest		<u>–</u>	<u>–</u>
Net loss for the year		<u><u>(3,268)</u></u>	<u><u>(5,363)</u></u>
Dividends	11	<u>–</u>	<u>–</u>
		HK cents	HK cents
Loss per Share			
Basic	12	<u>(1.05)</u>	<u>(1.85)</u>
Diluted	12	<u>(1.05)</u>	<u>(1.85)</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2004

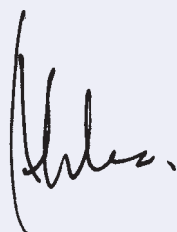
	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	13	14,295	15,124
Intangible assets	14	11,869	11,177
Deferred tax assets		–	8
		<u>26,164</u>	<u>26,309</u>
Current assets			
Inventories	16	3,882	2,218
Amount due from a related company	25	104	103
Trade receivables	17	3,581	1,103
Other receivables, deposits and prepayments		3,126	2,324
Pledged bank deposits		2,012	8,331
Cash and bank balances		10,527	4,201
		<u>23,232</u>	<u>18,280</u>
Current liabilities			
Amount due to related companies	25	386	384
Trade payables	18	94	198
Trust receipts		1,607	809
Other payables		4,742	4,911
Current portion of borrowings	19	4,837	4,394
		<u>11,666</u>	<u>10,696</u>
Net current assets		<u>11,566</u>	<u>7,584</u>
Total assets less current liabilities		<u><u>37,730</u></u>	<u><u>33,893</u></u>

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Capital and reserves			
Share capital	20	17,311	14,461
Reserves		19,568	14,581
		<u>36,879</u>	<u>29,042</u>
Minority interest			
		–	–
Non-current liabilities			
Deferred tax liabilities		851	893
Borrowings	19	–	3,958
		<u>851</u>	<u>4,851</u>
		<u>37,730</u>	<u>33,893</u>

The financial statements on pages 35 to 67 were approved and authorised for issue by the Board of Directors on 23 March 2005 and are signed on its behalf by:



Lee Siu Fong
Director

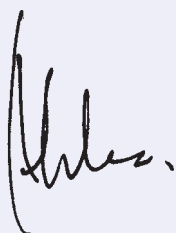


Leelalertsuphakun Wanee
Director

BALANCE SHEET

At 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Intangible assets	14	3,840	3,840
Interests in subsidiaries	15	39,970	34,920
		<u>43,810</u>	<u>38,760</u>
Current assets			
Other receivables, deposits and prepayments		204	87
Pledged bank deposits		1,000	1,000
Cash and bank balances		6,105	3,211
		<u>7,309</u>	<u>4,298</u>
Current liabilities			
Other payables		96	463
		<u>96</u>	<u>463</u>
Net current assets		<u>7,213</u>	<u>3,835</u>
Total assets less current liabilities		<u>51,023</u>	<u>42,595</u>
Capital and reserves			
Share capital	20	17,311	14,461
Reserves	21	33,712	28,134
		<u>51,023</u>	<u>42,595</u>



Lee Siu Fong
Director



Leelalertsuphakun Wanee
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Revaluation reserve HK\$'000	Exchange reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	14,461	24,887	9,200	3,921	12	(18,050)	34,431
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	–	(26)	–	(26)
Net loss for the year	–	–	–	–	–	(5,363)	(5,363)
At 31 December 2003	<u>14,461</u>	<u>24,887</u>	<u>9,200</u>	<u>3,921</u>	<u>(14)</u>	<u>(23,413)</u>	<u>29,042</u>
At 1 January 2004	14,461	24,887	9,200	3,921	(14)	(23,413)	29,042
Shares issued at premium	2,850	8,664	–	–	–	–	11,514
Share issue expenses	–	(324)	–	–	–	–	(324)
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	–	(85)	–	(85)
Net loss for the year	–	–	–	–	–	(3,268)	(3,268)
At 31 December 2004	<u>17,311</u>	<u>33,227</u>	<u>9,200</u>	<u>3,921</u>	<u>(99)</u>	<u>(26,681)</u>	<u>36,879</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(3,308)	(5,419)
Adjustments for:		
Depreciation of property, plant and equipment	1,481	1,502
Interest expenses	523	521
Interest income	(71)	(143)
Amortisation of intangible assets	550	546
Gain on disposal of property, plant & equipment	(13)	–
Operating cash flow before movements in working capital	(838)	(2,993)
Increase in inventories	(1,664)	(1,343)
(Increase) decrease in trade receivables	(2,478)	355
Increase in other receivables, deposits and prepayment	(802)	(1,171)
(Decrease) increase in trade payables	(104)	69
Increase in trust receipts	798	809
(Decrease) increase in other payables	(194)	741
Cash used in operations	(5,282)	(3,533)
Interest paid	(498)	(444)
NET CASH USED IN OPERATING ACTIVITIES	(5,780)	(3,977)
INVESTING ACTIVITIES		
Interest received	71	143
Decrease in bank deposits with maturity more than three months	–	3,002
Purchase of property, plant and equipment	(604)	(1,163)
Additions of deferred development cost	(1,201)	(781)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,734)	1,201

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
FINANCING ACTIVITIES		
New loan raised	–	2,598
Repayment of loans	(3,515)	(2,625)
Proceeds from share issue	11,514	–
Payment of shares issue expenses	(324)	–
	<hr/>	<hr/>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	7,675	(27)
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	161	(2,803)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	12,532	15,410
Effect of foreign exchange rate changes	(154)	(75)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12,539	12,532
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	10,527	4,201
Pledged bank deposits	2,012	8,331
	<hr/>	<hr/>
	12,539	12,532
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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. SIGNIFICANT ACCOUNTING POLICIES

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

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 FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. 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.

Land and 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 land and 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:

Leasehold land	Over the term of the lease
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.

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure

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

An internally generated intangible asset arising from development 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.

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 FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. 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 FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. 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.

(iii) Share options

Share options are granted to employees to acquire shares of the Company. At the date of offer or the date of grant, no employee benefit cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

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.

3. TURNOVER

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. SEGMENTAL 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment turnover	21,503	17,421	8,892	1,077	30,395	18,498
Segment results	3,567	823	(3,714)	(146)	(147)	677
Interest income					71	141
Unallocated expenses					(2,667)	(5,644)
Loss from operations					(2,743)	(4,826)
Finance costs					(565)	(593)
Loss before taxation					(3,308)	(5,419)
Taxation					40	56
Loss before Minority interests					(3,268)	(5,363)
Segment assets	24,464	24,321	13,783	12,131	38,247	36,452
Unallocated assets					11,149	8,137
Total assets					49,396	44,589
Segment liabilities	9,845	12,807	2,576	2,277	12,421	15,084
Unallocated liabilities					96	463
Total liabilities					12,517	15,547
Other segment information:						
Capital additions	472	923	132	240	604	1,163
Depreciation and amortisation	1,932	1,988	99	60	2,031	2,048
Allowance for bad and doubtful debts	(84)	(401)	–	–	(84)	(401)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION *(continued)*

Geographical segments

During the years ended 31 December 2004 and 2003, 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	28,398	24,321	20,998	20,268	49,396	44,589
Segment liabilities	11,607	12,807	910	2,740	12,517	15,547

5. OTHER REVENUE

	The Group	
	2004 HK\$'000	2003 HK\$'000
Other income	539	571
Interest income on bank deposits	71	143
Gain on disposal of plant and machinery	13	—
	623	714

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

6. LOSS FROM OPERATIONS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,481	1,502
Amortisation of intangible assets	550	546
Total depreciation and amortisation	<u>2,031</u>	<u>2,048</u>
Auditors' remuneration	445	431
Staff costs	5,839	4,783
Research and development costs	131	241
Operating lease payments in respect of rented premises	979	935
Bad debts written off	23	484
Allowance for bad and doubtful debts written back	(84)	(401)
Stock provisions written back	(21)	–

7. FINANCE COSTS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five years	493	492
Amount due to a related company	30	29
	<u>523</u>	<u>521</u>
Bank charges	42	72
	<u>565</u>	<u>593</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

8. DIRECTORS' EMOLUMENTS

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

	2004 HK\$'000	2003 HK\$'000
Executive Directors:		
Salaries and other benefits	2,730	2,473
Contributions to retirement benefits schemes	36	37
	2,766	2,510
Independent non-executive Directors:		
Fees	114	100
	2,880	2,610

The aggregate emoluments of the directors were within following bands:

	Number of Directors	
	2004	2003
HK\$1 – HK\$500,000	4	3
HK\$500,001 – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	1	–
	7	6

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: four) were directors of the Company whose emoluments are included in the disclosures in note (8) above. The emoluments of the remaining two (2003: one) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	679	477
Contributions to retirement benefits schemes	22	12
	<u>701</u>	<u>489</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.

10. TAXATION

	The Group	
	2004 HK\$'000	2003 HK\$'000
Current tax		
Hong Kong	—	—
The PRC	—	—
	—	—
Deferred tax		
Credit of current year	40	56
Taxation attributable to the Group	<u>40</u>	<u>56</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 FINANCIAL STATEMENTS

For the year ended 31 December 2004

10. TAXATION *(continued)*

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

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(3,308)</u>	<u>(5,419)</u>
Tax at applicable rate	(577)	(920)
Tax effect of non-deductible expenses	65	325
Tax effect of non-taxable revenues	(457)	(544)
Tax effect on temporary differences not recognised	(36)	(41)
Tax effect of tax losses not recognised	815	920
Utilisation of tax losses previously not recognised	<u>150</u>	<u>204</u>
Tax credit for the year	<u>(40)</u>	<u>(56)</u>

At the balance sheet date, the Group has unused estimated tax losses of HK\$13.31 million (2003: HK\$9.70 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.

11. DIVIDENDS

No dividend was paid or proposed during 2004, nor has any dividend been proposed since the balance sheet date (2003: HK\$ Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. LOSS PER SHARE

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

	The Group	
	2004	2003
Loss:		
Net loss for the year for the purpose of basic and diluted loss per share	<u>HK\$3,268,000</u>	<u>HK\$5,363,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	310,561,066	289,225,000
Effect of dilutive potential ordinary shares:		
Options	–	<u>486,486</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>310,561,066</u>	<u>289,711,486</u>

No diluted loss per share has been presented because the exercise prices of the Company's options were higher than the average market price of the Shares for year 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Land and 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 2004	12,785	250	6,352	2,219	21,606
Exchange rate adjustments	91	–	44	13	148
Additions	–	64	344	196	604
Disposals	–	–	(94)	(32)	(126)
At 31 December 2004	<u>12,876</u>	<u>314</u>	<u>6,646</u>	<u>2,396</u>	<u>22,232</u>
Comprising:					
At cost	–	314	6,646	2,396	9,356
At valuation	<u>12,876</u>	–	–	–	<u>12,876</u>
	<u>12,876</u>	<u>314</u>	<u>6,646</u>	<u>2,396</u>	<u>22,232</u>
DEPRECIATION AND IMPAIRMENT					
At 1 January 2004	1,659	84	2,905	1,834	6,482
Exchange rate adjustments	11	–	20	12	43
Charge for the year	598	56	672	155	1,481
Disposal	–	–	(67)	(2)	(69)
At 31 December 2004	<u>2,268</u>	<u>140</u>	<u>3,530</u>	<u>1,999</u>	<u>7,937</u>
NET BOOK VALUES					
At 31 December 2004	<u><u>10,608</u></u>	<u><u>174</u></u>	<u><u>3,116</u></u>	<u><u>397</u></u>	<u><u>14,295</u></u>
At 31 December 2003	<u><u>11,126</u></u>	<u><u>166</u></u>	<u><u>3,447</u></u>	<u><u>385</u></u>	<u><u>15,124</u></u>

The land and buildings are situated in the PRC under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$4.94 million (2003: HK\$5.20 million).

The Group has pledged land and buildings having a net book value of approximately HK\$10.61 million (2003: HK\$11.13 million) to secure general banking facilities granted to the Group.

14. INTANGIBLE ASSETS

	Development cost HK\$'000
<hr/>	
The Group	
COST	
At 1 January 2004	12,543
Exchange rate adjustments	51
Additions	<u>1,201</u>
At 31 December 2004	<u>13,795</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	1,366
Exchange rate adjustments	10
Charge for the year	<u>550</u>
At 31 December 2004	<u>1,926</u>
NET BOOK VALUES	
At 31 December 2004	<u><u>11,869</u></u>
At 31 December 2003	<u><u>11,177</u></u>
	Development cost HK\$'000
<hr/>	
The Company	
COST	
At 1 January 2004 and 31 December 2004	<u><u>3,840</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	39,969	34,919
	<u>39,970</u>	<u>34,920</u>

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

Details of the Company's principal subsidiaries as at 31 December 2004 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
Hefei Siu-Fung USTC Pharmaceutical Company Limited ("Zhaoke")	US\$2,000,000	–	70%	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 FINANCIAL STATEMENTS

For the year ended 31 December 2004

16. INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	225	379
Work-in-progress	96	777
Finished goods	3,561	1,062
	<u>3,882</u>	<u>2,218</u>

Included above are raw materials which are carried at net realisable value of HK\$ Nil (2003: Nil) at the balance sheet date.

17. 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	
	2004 HK\$'000	2003 HK\$'000
1-90 days	3,065	785
91-180 days	460	146
181-365 days	112	343
Over 365 days and under 3 years	67	34
	<u>3,704</u>	<u>1,308</u>
Less: Allowance for bad and doubtful debts	(123)	(205)
	<u>3,581</u>	<u>1,103</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

18. TRADE PAYABLES

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
1-90 days	9	149
91-180 days	84	1
181-365 days	1	21
Over 365 days	—	27
	94	198

19. BORROWINGS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans, secured by:		
The Group's land and buildings	—	3,623
Company's guarantee and pledged deposits	—	3,363
Other loans, secured by:		
The Group's land and buildings	4,837	1,366
	4,837	8,352
Less: Amounts shown under current liabilities	(4,837)	(4,394)
	—	3,958

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

19. BORROWINGS (continued)

The borrowings bear interest at prevailing market rates and are repayable as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Repayable:		
Within one year	4,837	4,394
In more than one year but not exceeding two years	–	3,958
In more than two years but not exceeding five years	–	–
	<u>4,837</u>	<u>8,352</u>
Less: Amounts due within one year classified as current liabilities	<u>(4,837)</u>	<u>(4,394)</u>
	<u>–</u>	<u>3,958</u>

20. SHARE CAPITAL

	Number of ordinary shares			
	of HK\$0.05 each		Amount	
	2004	2003	2004 HK\$'000	2003 HK\$'000
Authorised:				
Ordinary shares of HK\$0.05 each	<u>500,000,000</u>	<u>500,000,000</u>	<u>25,000</u>	<u>25,000</u>
Issued and fully paid:				
Beginning of the year	289,225,000	289,225,000	14,461	14,461
Allotment	<u>57,000,000</u>	–	<u>2,850</u>	–
End of the year	<u>346,225,000</u>	<u>289,225,000</u>	<u>17,311</u>	<u>14,461</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

20. SHARE CAPITAL *(continued)*

Pursuant to a special resolution passed on 13 August 2004, a subscription agreement relating to subscription of 57,000,000 new shares of HK\$0.05 each in the capital of the Company at a subscription price of HK\$0.202 per new share was approved. The completion of the subscription took place on 17 August 2004 with 57,000,000 new shares of the Company being allotted and issued to Defiante Farmaceutica, Lda. The proceeds were issued for the purpose of financing the working capital of the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 18 May 2004 and rank *pari passu* with other shares in issue in all respects.

21. RESERVES

	Share premium HK \$'000	Merger difference HK \$'000	Accumulated losses HK \$'000	Total HK \$'000
<hr/>				
The Company				
At 1 January 2003	24,887	9,200	(2,100)	31,987
Net loss for the year	—	—	(3,853)	(3,853)
<hr/>				
At 31 December 2003 and 1 January 2004	24,887	9,200	(5,953)	28,134
Issue of new Shares to Subscriber	8,664	—	—	8,664
Share issue expenses	(324)	—	—	(324)
Net loss for the year	—	—	(2,762)	(2,762)
<hr/>				
At 31 December 2004	<u>33,227</u>	<u>9,200</u>	<u>(8,715)</u>	<u>33,712</u>

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 39.

The Company's reserves available for distribution to shareholders as at 31 December 2004 was HK\$33.71 million (2003: HK\$ 28.13 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

21. RESERVES (continued)

The Company's reserves available for distribution represent the share premium, merger difference and accumulated losses. Under the Companies Law (2004 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 and 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.

22. COMMITMENTS

	2004 HK\$'000	2003 HK\$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	805	759
In more than one year but not exceeding five years	450	834
	<u>1,255</u>	<u>1,593</u>

23. 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 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 12,929,000 (2003: 5,929,000) representing 3.73% (2003:2.05%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 10% of the shares of the Company in issue at the time of listing, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. SHARE OPTIONS SCHEME (continued)

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

Date of grant	Outstanding at 01.01.2004	Granted/exercised/ cancelled/lapsed during the year	Outstanding at 31.12.2004	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	–	400,000	26.06.2004- 25.06.2012	HK\$0.280
	<u>2,000,000</u>	<u>–</u>	<u>2,000,000</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 FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. SHARE OPTIONS SCHEME (continued)

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

Date of grant	Outstanding	During the year			Outstanding	Exercise price per share	
	at 01.01.2004	Granted	Exercised/ cancelled	Lapsed	at 31.12.2004		
<i>Category I: Directors</i>							
13.01.2003	3,379,000	-	-	(100,000)	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
<i>Category II: Employees</i>							
13.01.2003	550,000	-	-	-	550,000	13.07.2003- 12.01.2013	HK\$0.405
25.06.2004*	-	6,800,000	-	-	6,800,000	25.12.2004- 24.06.2014	HK\$0.218
	<u>3,929,000</u>	<u>7,100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>10,929,000</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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. SHARE OPTIONS SCHEME *(continued)*

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

	Outstanding at 01.01.2004	During the year			Outstanding at 31.12.2004
		Granted	Exercised/ cancelled	Lapsed	
<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	100,000	300,000	–	–	400,000
Leung Yun Fai	100,000	–	–	(100,000)	–
Directors' total	4,979,000	300,000	–	(100,000)	5,179,000
<i>Employees</i>	950,000	6,800,000	–	–	7,750,000
Grand total	<u>5,929,000</u>	<u>7,100,000</u>	<u>–</u>	<u>(100,000)</u>	<u>12,929,000</u>

Total consideration received during the year from Directors and employees for taking up the options granted amounted to HK\$23 (2003: HK\$7).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognized in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

24. PLEDGED OF ASSETS

At the balance sheet date, the Group pledged land and buildings with an aggregate amount of HK\$10.61 million (2003: HK\$11.13 million) and fixed deposits of HK\$2.01 million (2003: HK\$8.33 million) to banks and other institutions to secure general banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. RELATED PARTIES TRANSACTIONS AND BALANCES

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

Name of related parties	Notes	Nature of transactions	2004 HK\$'000	2003 HK\$'000
University of Science and Technology of China Biotechnology Company	(a)	Amount due from	104	103
科大技術實業總公司	(b)	Amount due to	12	12
University of Science and Technology of China	(c)	Amount due to	374	372
		Interest payable	30	29
Eco-Globe Development Limited	(d)	Sales of pharmaceutical product	42	–
Cremalpina Co., Limited	(e)	Sales of other product	56	3

Notes:

- (a) University of Science and Technology of China Biotechnology Company ("USTC Biotech") is a minority shareholder of the Company's subsidiary, Zhaoke. The amount due therefrom is unsecured, interest-free and has no fixed terms of repayment.
- (b) 科大技術實業總公司 is considered a related party of the Group as it is subject to common control or common significant influence as USTC Biotech, the minority shareholder of the Group's member, Zhaoke. The amount due thereto is unsecured, interest-free and has no fixed terms of repayment.
- (c) University of Science and Technology of China is considered a related party of the Group as it is subject to common control or common significant influence as USTC Biotech, the minority shareholder of the Group's member, Zhaoke. The amount due thereto is unsecured, bears interest at 7.92% per annum commencing from 15 September 1997 for a term of two years. The amount has been overdue. No settlement has been made subsequent to 31 December 2001.
- (d) The directors, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi, have beneficial interests in Eco-Globe Development Limited.
- (e) The directors, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi, have beneficial interests in Cremalpina Co. Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. 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\$132,000 (2003: HK\$91,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2004, contributions of HK\$12,000 (2003: HK\$28,000) 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				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	30,395	18,498	11,644	10,346	6,852
Cost of sales	<u>(10,381)</u>	<u>(5,134)</u>	<u>(3,200)</u>	<u>(2,466)</u>	<u>(1,938)</u>
Gross profit	20,014	13,364	8,444	7,880	4,914
Other revenue	623	714	216	737	356
Selling and distribution expenses	(13,207)	(6,850)	(5,030)	(5,383)	(4,839)
Administrative expenses	<u>(10,173)</u>	<u>(12,054)</u>	<u>(8,415)</u>	<u>(5,232)</u>	<u>(5,635)</u>
Loss from operations	(2,743)	(4,826)	(4,785)	(1,998)	(5,204)
Gain on disposal of technology of a developing product	–	–	–	1,396	–
Finance costs	<u>(565)</u>	<u>(593)</u>	<u>(596)</u>	<u>(715)</u>	<u>(647)</u>
Loss before taxation	(3,308)	(5,419)	(5,381)	(1,317)	(5,851)
Taxation	<u>40</u>	<u>56</u>	<u>32</u>	<u>–</u>	<u>–</u>
Loss before minority interest	<u><u>(3,268)</u></u>	<u><u>(5,363)</u></u>	<u><u>(5,349)</u></u>	<u><u>(1,317)</u></u>	<u><u>(5,851)</u></u>

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	26,164	26,309	29,435	17,440	16,431
Current assets	23,232	18,280	18,999	5,699	6,257
Current liabilities	(11,666)	(10,696)	(12,303)	(8,360)	(14,845)
Net current assets (liabilities)	11,566	7,584	6,696	(2,661)	(8,588)
Non-current liabilities	(851)	(4,851)	(1,700)	(10,716)	(14,275)
Net assets	<u>36,879</u>	<u>29,042</u>	<u>34,431</u>	<u>4,063</u>	<u>(6,432)</u>

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, 25 May 2005 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 2004.
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") is to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph 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

NOTICE OF ANNUAL GENERAL MEETING

- (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the Articles of Association of the Company;
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of Cayman Islands to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

B. “THAT

- (a) subject to paragraph 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

NOTICE OF ANNUAL GENERAL MEETING

- (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 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.”

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

Hong Kong, 31 March 2005

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 Resolution no. 4 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to shareholders together with 2004 Annual Report.