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

(incorporated in the Cayman Islands with limited liability)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

** For identification purpose only*

CHAIRMAN'S STATEMENT

2002 was an eventful year for the Company which saw its successful listing on the Stock Exchange on 15 July 2002 (the "Listing date"). The listing not only raised capital for the Company and its subsidiaries (collectively referred to as the "Group") to fuel its accelerated growth in the coming years, but also enhances the profile and reputation of the Group, allowing it to have broader access to and explore business opportunity.

During the year, the Group focused its efforts on continuing to expand its marketing and distribution network. It has successfully completed the restructuring of its sale organisation and implementation of its new "partnership" strategy. The local distributors working with the Group increased from 49 to 83 in the year and sales network has extended to cover all thirty provinces, cities and autonomous regions in the People's Republic of China (the "PRC"). As a result, the market share of the Group's leading product, Livaracine, has increased significantly as its volume of sales increased from 344,000 vials to 631,000 vials during the year. In addition, the Group has started to establish a marketing and distribution presence in Hong Kong, and has since secured the distribution rights of two products from Europe which are presently under relevant registrations in the PRC and Hong Kong.

Meanwhile, the Group has intensified its efforts to build up its intellectual property portfolio. The Group understands that a solid pipeline with strong intellectual property protection is the only way to improve the competitiveness of the Group in the market place after PRC's entry to the World Trade Organisation. During the year, the Group has filed a patent application in the PRC for its new drug, Hemocoagulase, whereas a new drug application filing with the State Drug Administration (the "SDA") of the PRC is expected to follow soon. The Group's first United States of America ("U.S.") patent titled "Antithrombosis enzyme from the snake venom of agkistrodon acutus" was issued by the U.S. patent office on 3 December 2002.

Looking ahead, I am excited and confident about the future prospect of the Group as it enters into an accelerated development era as a fully integrated biopharmaceutical company. With the new distribution system going into the top gear, the sales of the Group's Livaracine and Yallaferon are expected to grow rapidly. With several imported products under registrations both in the PRC and Hong Kong, and several products starting clinical studies soon, new products are expected to be launched thereby boosting the Group's revenue and improving its profitability. Furthermore, the Group will continue to explore the possibility of various forms of strategic alliance with and/or acquisition of reputable pharmaceutical companies and research institutions in order to further enhance its competitiveness in the industry.

On behalf of the board of Directors (the "Board"), 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 ("Shareholders") for their continuing support.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The listing on GEM, representing a major milestone for the Group, brought forth net proceeds of approximately HK$19,708,000 for its business expansions and developments. Internally, the Company applied the funding to improve its research and development efforts to keep abreast of latest market needs and technological developments. Externally, the Company

allocated resources for the marketing and promotion of its existing products to raise its profile and extend its geographical coverage.

During the year, the renewal of Good Manufacturing Practice Certificate for gel workshop has been obtained from the SDA of the PRC for a further five years to August 2007. The compliance and good standard of our gel workshop has been proven therefrom. Moreover, the patent of our Yallaferon has been granted for twenty years by the Intellectual Property Bureau of the PRC .

FINANCIAL REVIEW

Financial Performance

The Group's turnover for the year was HK$11,644,000 (2001: HK$10,346,000). This represented an increase of 12.5 per cent. as compared with the corresponding year of 2001. The net loss for the year amounted to approximately HK$3,467,000 (2001: HK$1,317,000).

The increase in turnover was mainly attributable to the increase in sales generated from Livaracine. Sales of Livaracine during the year was approximately HK$8,313,000, accounting for 71.4 per cent. of the total turnover of the Group and representing approximately 28.4 per cent. increment when compared with last year. Moreover, improvement in machinery, tightened quality control and increase in production capacity reduced the unit production cost of Livaracine by 28.9% as compared with last year.

Selling and distribution expenses to turnover ratio improved significantly from 52% for the year ended 31 December 2001 to 43% for the year ended 31 December 2002 respectively as a result of the successful implementation of new sales and marketing strategy of the Group.

The increase in administration expenses for the year was mainly attributable to increase in staff costs and legal and professional expenses incurred after the Company's listing on the Stock Exchange in July 2002.

With the wide acceptance of the Group's cash-on-delivery policy by customers in 2002, the debtors turnover days significantly improved from 123 days in year 2001 to 56 days in year 2002. The shortened receivable days remarkably improved the cash flow of the Group in the year.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2002.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES

During the year, the Group's primary source of funding was cash proceeds from placing of 75,000,000 ordinary shares of HK$0.05 each in the share capital of the Company (the "Shares"). As at 31 December 2002, the Group had cash and bank balances of approximately HK$18,412,000 (2001: HK$296,000). 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 2002, the Group has long term debts of approximately HK$758,000 and shareholders' funds of approximately HK$35,373,000. Its gearing ratio (long term debts to the sum of shareholders' funds and long term debts) improved significantly from approximately 72.5 per cent. as at 31 December 2001 to approximately 2.1 per cent. as at 31 December 2002.

The Group adopts conservative treasury policies in cash and financial management with all bank deposits in either Hong Kong dollars, U.S. dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. The Group's liquidity and financing arrangements are reviewed regularly.

Charges on Group Assets

As at 31 December 2002, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$11,686,000 (2001: HK$5,319,000) have been pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of about HK$4,348,000 were pledged as securities for banking facilities as at 31 December 2002 (2001: HK$Nil).

Employee Information

At the end of December 2002, the Group had 115 full-time employees in Hong Kong and the PRC with a total staff cost for the year ended 31 December 2002 of approximately HK$3,848,000.

The Group offers a comprehensive remuneration package and a range of additional benefits to its employees, including participation in provident fund and medical benefits. In order to motivate quality employees and attract high caliber candidates to join the Group, the Group has adopted a pre-IPO share option scheme and share option scheme.

Foreign Exchange Exposure

Currently, the Group mainly earns revenue and incurs cost in Renminbi. The Directors believe that the Group does not have problems in meeting its foreign exchange requirements. The Group did not use any type of derivatives to hedge against any foreign currency fluctuations.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2002 and 2001.

BUSINESS OUTLOOK

The Group foresees an increase in revenue and improvement in profitability in 2003. The broadening of the Group's distribution network will facilitate the gaining of market share for the Group's existing products. With its established brand name and consistent quality, Livaracine is expected to maintain its growth momentum. Yallaferon, the Group's topical interferon, as the first of its kind in PRC, has since been gaining recognition by the health professionals and it is expected to register acceleration in sales in the coming year. In addition, the establishment of an effective and efficient distribution network will allow the Group to start market imported products from its overseas partners.

Efforts will also be focused on improving productivity and reducing production cost by investing in production equipment and machinery. Key components of the production process are undergoing substantial improvement that will result in the increase of production capacity and improvement of product quality.

Last but not the least, the Group will continue to put great emphasis on research and development. It is the Group's plan to accelerate the development of its new products, and will continue to further broaden the product variety by seeking strategic alliance with overseas pharmaceutical companies. Presently, the Group is actively pursuing several products and technology from U.S. and Europe which are both innovative and proprietary for licensing. As a result, it is expected that the Group's product pipeline will be significantly strengthened in the coming year.

2003 will be an exciting year for development and the Group is looking forward to the challenge with confidence.

USE OF PROCEEDS

On 15 July 2002, the Company issued a total of 75,000,000 new Shares at an issued price of HK$0.40 each pursuant to the Placing (as defined in the prospectus issued by the Company dated 3 July 2002 (the "Prospectus")). The net gross proceeds therefrom after deducting the listing expenses amounted to approximately HK$19,708,000.

Up to 31 December 2002, the net proceeds from the initial Placing had been utilised in line with the terms stipulated in the Prospectus, particulars of which are set out as follows:

	Budgeted amount to be used up to 31 December 2002 as extracted from the Prospectus *HK$'000*	**Actual amount used up to 31 December 2002** *HK$'000*
For production	1,199	29
For sales and marketing	834	217
For research and development	968	598
Repayment of third party loans	2,984	237
For additional working capital	1,008	215
	6,993	1,296

In view of the current economic downturn, the Group has employed tight control over expenditure. Moreover, the Group's various strategies on expansion were implemented at the end of the year and, thus, delayed the budgeted expenditure to the next financial year.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGRESS

Business Objectives up to 31 December 2002 as stated in Prospectus	Actual Progress up to 31 December 2002
• Install and commission new purification system to expand the production system of purification workshop	• The plan for new purification system installation is deferred as the existing system is still functioning and capable to meet existing production level.
• Establish Chengdu branch office to expand the Group's sales efforts	• In light of current economic downturn, the Group has temporarily set aside the plan of setting up new branch office. Instead, more emphasis is placed on local distributors who have established good customer base and distribution network.
• Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts	• 5 additional staffs have been recruited to strengthen the sales team of Guangzhou sales office at the end of the year. • The sales and marketing team of Shanghai branch office has recently been restructured to enhance its efficiency.
• Submit application for clinical trials for (i) Declotana, (ii) topical gel Livaracine and (iii) Hemocoagulase	• The application for clinical trials for (i) Declotana has been submitted, while the pre-clinical researches for (ii) topical gel Livaracine and (iii) Hemocoagulase are still in progress and applications for clinical trials have not been submitted. However, a patent application for Hemocoagulase was filed in the PRC.
• Commence phase II clinical trials of (i) protein-free calf blood extract eye gelatin and (ii) Livaracine for new indication	• The SDA is still reviewing the application for phase II clinical trials of (i) protein-free calf blood extract eye gelatin and therefore the clinical trial has not yet commenced. For (ii) Livaracine for new indication, the approval of phase II clinical trials has been obtained from SDA and it is in the process of negotiation with outside institution to commence clinical trial.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002

	Notes	**2002** ***HK$'000***	2001 *HK$'000*
Turnover	(2)	**11,644**	10,346
Cost of sales		**(3,200)**	(2,466)
Gross Profit		**8,444**	7,880
Other revenue	(4)	**216**	737
Selling and distribution expenses		**(5,030)**	(5,383)
Administrative expenses		**(8,415)**	(5,232)
Loss from operations		**(4,785)**	(1,998)
Gain on disposal of technology of a developing Product		**–**	1,396
Finance costs		**(596)**	(715)
Loss before taxation		**(5,381)**	(1,317)
Taxation	(5)	**–**	–
Loss before minority interest		**(5,381)**	(1,317)
Minority interest		**1,914**	–
Net loss for the year		**(3,467)**	(1,317)
Dividends	(6)	**–**	–
		HK cents	HK cents
Loss per Share			
Basic	(7)	**(1.42)**	(0.72)
Diluted	(7)	**(1.41)**	(0.71)

Notes:

1. Group restructuring and basis of presentation of financial statements

The Company was incorporated in the Cayman Islands on 17 December 2001 as an exempt company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands and its shares have been listed on GEM with effect from 15 July 2002.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 12 June 2002. Details of the reorganisation were set out in the Prospectus.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended 31 December 2002 have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27, Accounting for Group Reconstructions, issued by the Hong Kong Society of Accountants.

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

2. Turnover

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

3. Business and geographical segments

As the Group is only engaged in the development, manufacturing and sales of pharmaceutical products solely in the PRC, no segmental information is presented accordingly.

4. Other revenue

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Other income	**113**	730
Interest income on bank deposits	**103**	7
	216	737

5. Taxation

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

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future assessable profits as it is not certain that the tax losses will be utilised in the foreseeable future.

6. Dividends

No dividend was paid or proposed during 2002, nor has any dividend been proposed since the balance sheet date (2001: HK$Ni1).

7. Loss per share

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

	2002	2001
Loss for the purposes of basic loss per share and diluted loss per share		
Net loss for the year	**HK$3,467,000**	HK$1,317,000
Weighted average number of ordinary shares for the purposes of basic loss per share	**244,658,562**	184,000,000
Effect of dilutive potential ordinary shares:		
Options	**1,500,000**	1,500,000
Weighted average number of ordinary shares for the purposes of diluted loss per share	**246,158,562**	185,500,000

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Shares commenced trading on GEM on 15 July 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities during the year.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules since the Shares were listed on the GEM on 15 July 2002.

Lee Siu Fong
Chairman

Hong Kong, 27 March 2003

This announcement will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.leespharm.com.