李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8221)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

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.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 only*

BUSINESS REVIEW

During the year 2004, the Company and its subsidiaries (collectively 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 State Food and Drug Administration of the PRC (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.

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.

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.

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.

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.

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.

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:

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

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.

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.

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
Production:	
• Install and commission new purification system for purification workshop	• 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.
• Purchase new equipment for raw material workshop to increase the production capacity	• As a result of a more cost-effective manufacturing process, there is no longer a need for new equipment in the near future.
• Install and commission imported lyophilized machine to increase the production capacity	• Domestic lyophilized machine instead of imported one had been installed and commissioned due to cost effectiveness. Maximum production capacity has been increased by 100%.
• Install and commission imported filling machine for gel workshop	• Since there is still enough capacity available, the installation will be postponed until the needs arise.
• To establish a GMP-compliant workshop for oral formulation	• Due to the delay of development of Oral Livaracine, the establishment will be postponed until the need arise.

Business Objectives up to 31 December 2004 as stated in Prospectus	Actual Progress up to 31 December 2004
Sales and marketing:	
• Establish Chengdu and Wuxi branch office to expand the Group's sales efforts	• 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 that 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.
• Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts	• 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.
• Launch the following products into the market: (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	• 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.

Business Objectives up to 31 December 2004 as stated in Prospectus	Actual Progress up to 31 December 2004
Research and development:	
• Declotana: (i) Submit application for clinical studies; (ii) Enter phase II clinical studies	• 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.
• Topical gel Livaracine: (i) Submit application for clinical studies; (ii) Commence phase II clinical studies	• Due to the market situation, the development work has been suspended.
• Hemocoagulase: submit application for clinical studies	• 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.
• Protein-free Calf Blood Extract Eye Gelatin: commence phase II clinical studies	• Phase II clinical studies commenced in August 2004.
• Livaracine for new indication: commence phase II clinical studies	• The commencement date of the study has been pushed back due to the Group's need to prioritise its resources. The timing of the study has yet to be set.
• Anti-fungus Peptide: (i) Commence phase I clinical studies (ii) Commence phase II clinical studies	• 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.
• Heparanase Inhibitor: commence phase II clinical studies	• Project plan is under formulation now. Additional studies are needed before initiation of clinical study.
• Oral Livaracine: commence phase II clinical studies	• The product is still under development in partnership with a Spanish company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	**2004** ***HK$'000***	2003 *HK$'000*
Turnover	2	**30,395**	18,498
Cost of sales		**(10,381)**	(5,134)
Gross Profit		**20,014**	13,364
Other revenue	4	**623**	714
Selling and distribution expenses		**(13,207)**	(6,850)
Administrative expenses		**(10,173)**	(12,054)
Loss from operations	5	**(2,743)**	(4,826)
Finance costs	6	**(565)**	(593)
Loss before taxation		**(3,308)**	(5,419)
Taxation	7	**40**	56
Loss before minority interest		**(3,268)**	(5,363)
Minority interest		**–**	–
Net loss for the year		**(3,268)**	(5,363)
Dividends	8	**–**	–
		HK cents	HK cents
Loss per Share			
Basic	9	**(1.05)**	(1.85)
Diluted	9	**(1.05)**	(1.85)

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	Notes	**2004** ***HK$'000***	2003 *HK$'000*
Non-current assets			
Property, plant and equipment		**14,295**	15,124
Intangible assets		**11,869**	11,177
Deferred tax assets		**–**	8
		26,164	26,309
Current assets			
Inventories		**3,882**	2,218
Amount due from a related company		**104**	103
Trade receivables	10	**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
		23,232	18,280
Current liabilities			
Amount due to related companies		**386**	384
Trade payables	11	**94**	198
Trust receipts		**1,607**	809
Other payables		**4,742**	4,911
Current portion of borrowings		**4,837**	4,394
		11,666	10,696
Net current assets		**11,566**	7,584
Total assets less current liabilities		**37,730**	33,893
Capital and reserves			
Share capital		**17,311**	14,461
Reserves		**19,568**	14,581
		36,879	29,042
Minority interest		**–**	–
Non-current liabilities			
Deferred tax liabilities		**851**	893
Borrowings		**–**	3,958
		851	4,851
		37,730	33,893

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital	Share premium	Merger difference	Revaluation reserve	Exchange reserves	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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	14,461	24,887	9,200	3,921	(14)	(23,413)	29,042
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	17,311	33,227	9,200	3,921	(99)	(26,681)	36,879

NOTES TO THE FINANCIAL STATEMENTS

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. Turnover

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

3. 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	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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

	Proprietary products		Licensed products		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
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)

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	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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

4. Other revenue

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

5. Loss from operations

	The Group	
	2004	2003
	HK$'000	*HK$'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	**2,031**	2,048
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)**	–

6. Finance costs

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

7. Taxation

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
The PRC	**–**	–
	–	–
Deferred tax		
Credit of current year	**40**	56
Taxation attributable to the Group	**40**	56

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.

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

	2004	2003
	HK$'000	*HK$'000*
Loss before taxation	**(3,308)**	(5,419)
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	**150**	204
Tax credit for the year	**(40)**	(56)

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.

8. Dividends

No dividend was paid or proposed during 2004, nor has any dividend been proposed since the balance sheet date (2003: HK$ Ni1).

9. 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	**HK$3,268,000**	HK$5,363,000
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	**–**	486,486
Weighted average number of ordinary shares for the purposes of diluted loss per share	**310,561,066**	289,711,486

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.

10. 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	2003
	HK$'000	*HK$'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
	3,704	1,308
Less: Allowance for bad and doubtful debts	**(123)**	(205)
	3,581	1,103

11. Trade payables

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

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

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.

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.

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.

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.

AUDITORS

The financial statements have been audited by HLM & Co. who retire and, being eligible, offer themselves for re-appointment.

As at the date thereof, Ms. Lee Siu Fong (Chairperson of the Company), Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi are executive Directors; Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive Directors.

On behalf of the Board
Lee Siu Fong
Chairman

Hong Kong, 23 March 2005

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