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 2005

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.

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

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.

* *for identification only*

BUSINESS REVIEW

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

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

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

Corporate Development

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

Drug development

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

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

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

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

Imported Products registration

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

Partnerships

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

Sales and marketing

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

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

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

BUSINESS OUTLOOK

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

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

AUDITED CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**2005** HK$'000	(Restated) 2004 HK$'000
Turnover	3	**38,528**	30,395
Cost of sales		**(13,216)**	(10,381)
Gross Profit		**25,312**	20,014
Other revenue		**1,770**	623
Selling and distribution expenses		**(14,614)**	(13,207)
Research and development expenses		**(878)**	(571)
Administrative expenses		**(11,035)**	(9,723)
Profit (loss) from operations		**555**	(2,864)
Finance costs		**(446)**	(565)
Profit (loss) before taxation		**109**	(3,429)
Taxation	4	**44**	36
Net profit (loss) attributable to shareholders		**153**	(3,393)
Dividends		**–**	–
		HK cents	HK cents
Earnings / (loss) per Share			
Basic	5	**0.04**	(1.09)
Diluted	5	**N/A**	N/A

AUDITED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	Notes	2005 HK$'000	(Restated) 2004 HK$'000
Non-current assets			
Property, plant and equipment		**11,806**	11,772
Intangible assets		**13,832**	11,869
Lease premium for land		**1,142**	1,141
Goodwill		**3,900**	–
		30,680	24,782
Current assets			
Lease premium for land		**28**	27
Inventories		**3,751**	3,882
Amount due from a related company		**–**	104
Trade receivables	6	**3,716**	3,581
Other receivables, deposits and prepayments		**2,777**	3,126
Pledged bank deposits		**2,014**	2,012
Cash and bank balances		**3,876**	10,527
		16,162	23,259
Current liabilities			
Amount due to related companies		**–**	386
Trade payables	7	**509**	94
Trust receipts		**–**	1,607
Other payables		**3,527**	4,742
Short term borrowings		**6,526**	4,837
		10,562	11,666
Net current assets		**5,600**	11,593
Total assets less current liabilities		**36,280**	36,375
Capital and reserves			
Share capital		**17,311**	17,311
Reserves		**18,349**	18,416
		35,660	35,727
Non-current liabilities			
Deferred tax liabilities		**620**	648
		36,280	36,375

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

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

Notes:

1. **Basis of preparation**

   The financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold buildings. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

2. **Adoption of Hong Kong Financial Reporting Standards**

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

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

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

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

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

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

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

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

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

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

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

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

3. Segment information

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

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

Geographical segments

During the years ended 31 December 2005 and 2004, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		**Hong Kong**		**Total**	
						(Restated)
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**30,063**	27,043	**16,779**	20,998	**46,842**	48,041
Segment liabilities	**9,500**	11,404	**1,682**	910	**11,182**	12,314

4. Taxation

	THE GROUP	
		(Restated)
	2005	2004
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
The PRC	**–**	–
Deferred tax		
Credit of current year	**44**	36
Taxation attributable to the Group	**44**	36

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.

5. Earnings (loss) per share

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

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

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

6. Trade receivables

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

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

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

7. Trade payables

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
1–90 days	**437**	9
91–180 days	**5**	84
181–365 days	**25**	1
Over 365 days	**42**	–
	509	94

DIVIDENDS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE PRACTICES

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

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

Under provision B.1 of the Code, a remuneration committee should be established to make recommendations to the Board on the policy and structure for all remuneration of directors and senior management. The Board considers that the Company needs not set up a remuneration committee as remuneration of directors and senior management are determined by the Board in accordance with the Articles and Association of the Company.

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

Hong Kong, 20 March 2006