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 2006

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

During the year of 2006, the Group continued its strategy to improve and expand its infrastructure in China while intensified its effort to build up product pipeline through international partnership. Significant progresses have been made in the areas of manufacturing, drug development, imported product registration, partnership and sales and marketing.

Manufacturing facility

The Group has completed the expansion of its manufacturing facility which includes adding two new respective production lines for small volume injection and eye gel as well as new warehouse. The new facility for small volume injection and warehouse were audited by the China SFDA. In September 2006, the Group has obtained from SFDA of China a Good Manufacturing Practices (GMP) Certificate related to the plant facility and quality assurance system for the production of the "Small Volume Parental Solutions". The facility for eye gel is also ready and is awaiting the audit by China SFDA which is expected in the second quarter of 2007. The improved capability and increased capacity will help the Group to achieve its growth objective in the future.

Drug development

In February 2006, the application for clinical study for Declotana (Antiplatelet Thrombolysin injection) has been approved by the SFDA of China. It is a purified protein from snake venom of Bothopsatrox that possesses the anti-platelet 1b receptors activity and is an effective anti-thrombosis agent. It is a first-in-class drug with potential application in cardiovascular diseases area. The preparation for phase I study has been completed and the study is expected in second half of 2007.

In October 2006, Yallaferon® ("Recombinant Human Interferon α-2b gel") has been approved for an additional indication for use in the treatment of cervicitis by the SFDA of China. Together, Yallaferon has been approved for five indications in both dermatological area and gynecological area. The newest approved indication will allow the Group to reposition the product which significantly augments its market potential.

The new drug application for the fifth proprietary product (Eyprotor®) developed in-house by the Group is still under reviewed by China SFDA. It is expected to be launched in the last quarter of 2007.

In addition, the Group has five other products in various preclinical development stages, targeting areas such as dermatology, wound hearing, ophthalmology and gynecology. One or two application for clinical study approval is expected in 2007.

Imported Products registration

During the year under review, the Group submitted an application for Acetyl-L-Carnitine injection registration to the China SFDA. Three other imported drugs have been under preparation for registration submission.

Approvals of clinical study for both Bemiparin and PLC were obtained in 2006. For Bemiparin, the study sites selection and other preparatory works for the clinical studies had been completed and patient enrollment is expected soon. Preparatory works for PLC clinical study was also initiated in 2006. It is the Group's target to start patient enrollment for this study in the third quarter of 2007.

The clinical study of Horus®S coronary stent and Challenge PTA balloon has been in progress since the end of 2006. It is a multi-center study and patient enrollment is expected to complete in the second quarter of 2007.

International Partnerships

During the year under review, the Group entered agreement with two European companies to exclusively distribute their products in China. In February 2006, the Group signed an agreement with APOGEPHA Arzneimittel GmbH, Germany for the distribution and marketing of Mictonorm® ~ Propiverine Hydrochloride throughout Hong Kong and the People's Republic of China. Mictonorm® is a proprietary drug with anticholinergic or antimuscarinic action, indicated for urinary incontinence, a problem specially affected older people. In December 2006, the Group signed agreement with Medestea Research and Production Spa of Italy for the distribution and marketing of Veroderm® in China. Veroderm® is a proprietary preparation for facilitating wound healing for bed sore, diabetic ulcer and burn, etc. Both products have good market potential in China and the successful registration should further broaden the revenue base of the Group.

In addition, the Group has been in extensive discussion with other European and US companies for distribution right of 8 different products. Those products have a diverse field of application, targeting diseases in the areas of dermatology, gynecology, orthopedic, hematology and oncology. The successful conclusion of those negotiations will greatly enhance the pipeline and the competitiveness of the Group.

Sales and marketing

With the launch of new product Slounase®, the Group intensified the improvement and expansion of its distributor network in China in 2006. The aim was to increase the market coverage and penetration of the Group's products through win-win partnership. As a result, the Group registered a significant net gain of its distributors in the year, reaching over 400 nationwide and covering more than 5000 major hospitals.

The brand building efforts were also vigorously pursued in 2006 with emphasis on participation of major professional meetings and congress at provincial, regional and national level. The Group was presented in six national meetings such as National Dermatology Congress, National Pediatric Nephrology Meeting and Great Wall Cardiology Congress by means of satellite meeting or exhibition. The Group also participated in 8 provincial and regional professional meeting in the areas of gynecology, nephrology and cardiology. Such efforts have yielded satisfactory results in enhance the Group's profile in China's medical professional community.

As a result, the Group's Livaracine® continued to lead the market in term of market shares, achieving the nine consecutive year of growth in sales volume. Carnitene® had a breakthrough year in 2006 with an increase of 44% in sales volume. The momentum is expected to carry on in 2007. Sales of Yallaferon® also started to improve in 2006 with the approval of new indication in gynecology. The reposition of the product in gynecology should significantly increase the market potential of the product. The launch of new product Slounase® was well received by our distributors. With many tenders being executed in the first or second quarter of 2007, the sales of Slounase® will undoubtedly make significant contribution to the Group.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2006 was HK$43.5 million, representing an increase of 13% from the same period in 2005. The increase was mainly attributable to the significant increase in sales of Carnitene® by HK$6.7 million during the year.

Gross profit margin

Gross profit margin was 61.3%, a decline from 65.7% for the year 2005. Gross profit margin of Carnitene® is relatively lower comparing with proprietary products and therefore the increase in sales proportion of Carnitene® caused a decline in gross profit margin of the Group. The written off of expired and slow moving license-in drugs also caused a decrease in gross profit margin.

Administrative expenses

Administrative expenses increased by HK$3.7 million from the same period last year. It was mainly attributable to the increase in staff cost, office rental and written off of bad debts.

Finance costs

Finance costs increased by HK$0.26 million as bank borrowings increased for the acquisition of new production facilities for the new proprietary products.

PROSPECTS

The Group is confident of its prospect in 2007 as its strategy of growth through product has started to bear fruit. The launch of new product Slounase® will contribute directly to the profitability of the Group. In addition, the Group is expected to launch at least one new product in 2007 which could help to further improve the Group's performance. With more than 10 products in the pipeline, the Group is optimistic that it can start a period of sustained growth in both revenue and profitability in the years to come.

AUDITED CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	**2006** ***HK$'000***	2005 *HK$'000*
Turnover	2	**43,531**	38,528
Cost of sales		**(16,860)**	(13,216)
Gross profit		**26,671**	25,312
Other revenue		**922**	1,770
Selling and distribution expenses		**(14,420)**	(14,614)
Research and development expenses		**(1,113)**	(878)
Administrative expenses		**(14,737)**	(11,035)
(Loss) profit from operations		**(2,677)**	555
Finance costs		**(704)**	(446)
(Loss) profit before taxation		**(3,381)**	109
Taxation	3	**(88)**	44
Net (loss) profit attributable to shareholders		**(3,469)**	153
		HK cents	*HK cents*
(Loss) earnings per Share			
Basic	4	**(1.00)**	0.04
Diluted	4	**N/A**	N/A

AUDITED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	Notes	**2006** ***HK$'000***	2005 *HK$'000*
Non-current Assets			
Property, plant and equipment		**14,484**	11,806
Intangible assets		**14,225**	13,832
Lease premium for land		**1,162**	1,142
Goodwill		**3,900**	3,900
		33,771	30,680
Current Assets			
Lease premium for land		**29**	28
Inventories		**4,075**	3,751
Trade receivables	5	**4,161**	3,716
Other receivables, deposits and prepayments		**3,757**	2,777
Pledged bank deposits		**2,012**	2,014
Cash and bank balances		**4,815**	3,876
		18,849	16,162
Current Liabilities			
Trade payables	6	**666**	509
Other payables		**6,319**	3,527
Bank overdraft		**819**	–
Short term borrowings		**10,326**	6,526
Tax payable		**134**	–
		18,264	10,562
Net Current Assets		**585**	5,600
Total Assets less Current Liabilities		**34,356**	36,280
Capital and Reserves			
Share capital		**17,311**	17,311
Reserves		**15,878**	18,349
Equity attributable to shareholders of the Company		**33,189**	35,660
Non-current Liabilities			
Deferred tax liabilities		**599**	620
Long-term borrowings		**568**	–
		1,167	620
		34,356	36,280

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Revaluation reserve *HK$'000*	Share-based compensation reserve *HK$'000*	Exchange reserves *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2006	17,311	32,496	9,200	3,106	443	183	(27,079)	35,660
Employee share option benefits	–	–	–	–	223	–	–	223
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	131	–	644	–	775
Net loss for the year	–	–	–	–	–	–	(3,469)	(3,469)
At 31 December 2006	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
At 1 January 2005	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

Notes:

1. Basis of preparation

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current and prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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

The consolidated financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. 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	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**24,169**	24,791	**19,362**	13,737	**43,531**	38,528
Segment results	**2,370**	3,586	**(3,655)**	(939)	**(1,285)**	2,647
Interest income					**27**	86
Unallocated expenses					**(1,419)**	(2,178)
(Loss) profit from operations					**(2,677)**	555
Finance costs					**(704)**	(446)
(Loss) profit before taxation					**(3,381)**	109
Taxation					**(88)**	44
(Loss) profit attributable to shareholders					**(3,469)**	153
Segment assets	**40,363**	35,671	**10,245**	7,083	**50,608**	42,754
Unallocated assets					2,012	4,088
Total assets					**52,620**	46,842
Segment liabilities	**10,247**	9,500	9,184	1,682	**19,431**	11,182
Unallocated liabilities					**–**	–
Total liabilities					**19,431**	11,182

Geographical segments

During the years ended 31 December 2006 and 2005, 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	
	2006	2005	**2006**	2005	**2006**	2005
	HK $'000	*HK $'000*	***HK $'000***	*HK $'000*	***HK $'000***	*HK $'000*
Segment assets	**30,852**	30,063	**21,768**	16,779	**52,620**	46,842
Segment liabilities	**10,247**	9,500	**9,184**	1,682	**19,431**	11,182

3. Taxation

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
The PRC	**(134)**	–
Deferred tax		
Credit of current year	**46**	44
Taxation attributable to the Group	**(88)**	44

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.

4. (Loss) earnings per share

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

	THE GROUP	
	2006	2005
Net (loss) profit attributable to shareholders for the purpose of basic and diluted (loss) earnings per share	**HK$(3,469,000)**	HK$153,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**346,225,000**	346,225,000

No diluted loss per share for the year ended 31 December 2006 is presented as the potential ordinary shares in respect of outstanding share options and warrants are anti-dilutive. No diluted earnings per share for the year ended 31 December 2005 has been presented as the exercise prices of outstanding options and warrants are higher than the market price of Shares.

5. 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	
	2006	2005
	HK$'000	*HK$'000*
1-90 days	**3,933**	3,044
91-180 days	**193**	616
181-365 days	**49**	112
Over 365 days and under 3 years	**47**	48
	4,222	3,820
Less: Allowance for bad and doubtful debts	**(61)**	(104)
	4,161	3,716

6. Trade payables

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

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
1-90 days	**666**	437
91-180 days	**–**	5
181-365 days	**–**	25
Over 365 days	**–**	42
	666	509

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006 (2005: Nil)

AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2006 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 2006, with deviations from provision B.1 of the Code.

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 of Association of the Company.

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

Hong Kong, 23 March 2007