



Annual Report 2002

LEE'S PHARM.
李氏大藥廠

Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司
(Incorporated in the Cayman Islands with limited liability)

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 report, 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 report.

This report, for which the directors (the "Directors") of LEE'S PHARMACEUTICAL HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

GEM STOCK CODE

8221

BOARD OF DIRECTORS

Executive Directors

Ms. Lee Siu Fong (*Chairman*)

Ms. Leelalertsuphakun Wanee

(*Managing Director*)

Mr. Lau Tai Wai

Independent Non-executive Directors

Dr. Chan Yau Ching, Bob

Mr. Leung Yun Fai

COMPLIANCE OFFICER

Ms. Lee Siu Fong

CHIEF TECHNICAL OFFICER

Dr. Li Xiao Yi

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ms. Mok Sau Man, Joanna *FCCA, AHKSA*

AUTHORISED REPRESENTATIVE

Ms. Lee Siu Fong

Ms. Leelalertsuphakun Wanee

PLACE OF BUSINESS IN HONG KONG

Room 1905, Grand Millennium Plaza
Lower Block, 181 Queen's Road Central
Hong Kong

COMPANY WEBSITE

www.leespharm.com

AUDIT COMMITTEE

Ms. Lee Siu Fong

Dr. Chan Yau Ching, Bob

Mr. Leung Yun Fai

AUDITORS

HLM & Co.

LEGAL ADVISERS

Arculli and Associates (Hong Kong law)

Beijing Wuhuan Law Firm (PRC law)

SPONSOR

Asia Investment Capital Limited

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

Room 1901-5, Hopewell Centre
183 Queen's Road East, Hong Kong

REGISTERED OFFICE

M&C Corporate Services Limited

P.O. Box 309 GT, Ugland House

South Church Street

Grand Cayman, Cayman Islands

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 ("US") patent titled "Antithrombosis enzyme from the snake venom of agkistrodon acutus" was issued by the US 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.



Lee Siu Fong
Chairman

Hong Kong, 27 March 2003

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 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.

Management Discussion and Analysis

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, US 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).

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 US 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
	<u>6,993</u>	<u>1,296</u>

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

Install and commission new purification system to expand the production system of purification workshop

Establish Chengdu branch office to expand the Group's sales efforts

Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts

Submit application for clinical trials for (i) Declotana, (ii) topical gel Livaracine and (iii) Hemocoagulase

Commence phase II clinical trials of (i) protein-free calf blood extract eye gelatin and (ii) Livaracine for new indication

Actual Progress up to 31 December 2002

The plan for new purification system installation is deferred as the existing system is still functioning and capable to meet existing production level.

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.

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.

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.

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.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Ms. Lee Siu Fong, aged 46, is the Chairman of the Company. She joined the Group in April 1997 and has since been responsible for the Group's financial affairs. Ms. Lee is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. Ms. Lee is the sister of Ms. Leelalertsuphakun Wanee.

Ms. Leelalertsuphakun Wanee, aged 49, is the Managing Director and the Chief Executive Officer of the Company. She joined the Group in April 1997 and has since been responsible for the daily operation of the Group. Ms. Leelalertsuphakun Wanee is the sister of Ms. Lee Siu Fong.

Mr. Lau Tai Wai, aged 33, is the director and Chief Marketing Officer of the Company. Mr. Lau holds an MBA degree from East Carolina University of US. He is responsible for the sales and marketing of the Group. Prior to joining the Group in August 1999, Mr. Lau worked for Glaxo Wellcome Hong Kong Limited and Amgen Greater China Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yau Ching, Bob, aged 40, is an independent non-executive Director appointed on 14 January 2002. Dr. Chan holds a BBA from the Chinese University of Hong Kong, an MBA from University of Wisconsin-Madison and a Ph.D. from Purdue University. He had been a finance professor of City University of Hong Kong and an adviser to various international institutions.

Mr. Leung Yun Fai, aged 45, is an independent non-executive Director appointed on 14 January 2002. He holds a bachelor degree of business administration from a US university. Mr. Leung is also a director of a financial consulting firm in Hong Kong and had over 20 years of auditing and accounting experience.

SENIOR MANAGEMENT

Dr. Li Xiao Yi, aged 40, is the Chief Technical Officer of the Group and a director of Hefei Siu-Fung USTC Pharmaceutical Company Ltd. ("Zhaoke"), the Group's principal operating arm. Dr. Li holds a Ph.D. of Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Warner-Lambert, a major pharmaceutical company. He joined the Group in February 1994 and has since been responsible for the research and development of the Group. Dr. Li is the brother of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

Directors and Senior Management Profiles

Ms. Mok Sau Man, Joanna, is the Chief Financial Officer and Company Secretary of the Company and is a Qualified Accountant. Ms. Mok is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Before joining the Group in March 2001, she was an accounting manager of a listed company in Hong Kong and an auditor of an international accounting firm.

Professor Wang Xian Shun, aged 66, is the Chief Engineer of Zhaoke. Professor Wang graduated from Beijing University with a bachelor degree in Biochemistry. Before joining the Group, he was a professor and a faculty member in College of Life Science, University of Science and Technology of China. He joined the Group in 1995 and has been responsible for the technical operation of Zhaoke.

Mr. Chen Yueshen, aged 44, is the Chief Operating Officer, Executive Deputy Manager and a director of Zhaoke. He is responsible for the daily operation of Zhaoke as well as administration and deployment of human resources.

Report of the Directors

The Board is pleased to present the first annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2002.

GROUP REORGANISATION

The Company

The Company was incorporated in the Cayman Islands under the Companies Law (2001 Second Revision) of the Cayman Islands as an exempted company with limited liability on 17 December 2001. The Company has established its head office and principal place of business in Hong Kong at Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong and has been registered in Hong Kong as an oversea company under Part XI of the Hong Kong Companies Ordinance on 15 January 2002. Shares have been listed on the GEM since 15 July 2002.

Group Reorganisation

Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the Group structure in preparation for the listing of the Company's shares on GEM, the Company became the ultimate holding company of the Group on 12 June 2002.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note (16) to the financial statements.

SEGMENTAL INFORMATION

No segmental information is provided as explained in note (5) to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the five largest customers and the largest customer accounted for approximately 23.8 per cent. and 10.5 per cent. of the Group's total turnover respectively. The five largest suppliers and the largest supplier of the Group accounted for approximately 94.4 per cent. and 44.8 per cent. of the Group's total purchases respectively.

Report of the Directors

None of the Directors, their associates (as defined in the GEM Listing Rules) or any Shareholders (who, to the knowledge of the Directors, own more than 5 per cent. of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 22.

The Board does not recommend the payment of any dividend for the year ended 31 December 2002.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note (14) to the financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in notes (22) and (26) respectively to the financial statements.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note (23) to the financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DIRECTORS

During the year and up to the date of this report the Directors are:

Executive directors:

Lee Siu Fong	(appointed on 17 December 2001)
Leelalertsuphakun Wanee	(appointed on 17 December 2001)
Lau Tai Wai	(appointed on 14 January 2002)

Independent non-executive directors:

Chan Yau Ching, Bob	(appointed on 14 January 2002)
Leung Yun Fai	(appointed on 14 January 2002)

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

Report of the Directors

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2002, the interests of the Directors and their associates in the shares of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

1. Shares

Name of director	Notes	Number of Shares held and nature of interest				Total
		Personal Interest	Family Interest	Corporate Interest	Other Interests	
Lee Siu Fong	(i)	2,334,375	-	163,290,625	-	165,625,000
Leelalertsuphakun Wanee	(ii)	-	-	163,290,625	-	163,290,625

Notes:

- (i) The shareholding interest attributable to Ms. Lee Siu Fong ("Ms. Lee") in the Company is held personally by her and through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee and Ms. Leelalertsuphakun Wanee.
- (ii) The shareholding interest attributable to Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") in the Company is held through Huby Technology and Dynamic Achieve. Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Leelalertsuphakun and Ms. Lee.

Report of the Directors

2. Directors' and chief executives' rights to acquire shares

Pursuant to a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 26 June 2002, Ms. Lee and Mr. Lau Tai Wai, among others, were granted options on 26 June 2002 to subscribe for 1,600,000 Shares and 3,000,000 Shares respectively, at a subscription price of HK\$0.28 per Share. The above options granted under the Pre-IPO Share Option Scheme will, in respect of not more than 50 per cent. thereof, be exercisable not less than two years but not more than ten years from the date of grant, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive), and in respect of the unexercised balance thereof, be exercisable not less than three years but not more than ten years from the date of grant, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Save as disclosed above, at no time during the year ended 31 December 2002 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or the chief executive (including their spouses or children under 18 years of age) to acquire benefits by means of the acquisition of the Shares of the Company or any other body corporate.

Save as disclosed above, none of the Directors nor their associates, as at 31 December 2002, had any interests in the securities of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all Shareholders on 26 June 2002, the Company, among others, conditionally adopted the Pre-IPO Share Option Scheme and Share Option Scheme, the principal terms of which are set out in the section headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix IV to the Prospectus.

The share options granted are not recognised in the financial statements until they are exercised.

Report of the Directors

1. Outstanding share options

As at 31 December 2002, options to subscribe for an aggregate of 5,000,000 Shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. No option was cancelled or lapsed since date of grant. Details of the grantees under the Pre-IPO Share Option Scheme are as follows:

Name of grantee	Number of Share options granted	Date of grant	Option period	Exercise period	Exercise price per Share HK\$
<i>Executive Directors</i>					
Ms. Lee	800,000	26/06/2002	Not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	800,000	26/06/2002	Not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
Lau Tai Wai	1,500,000	26/06/2002	Not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	1,500,000	26/06/2002	Not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
<i>Employees</i>					
2 grantees	200,000	26/06/2002	Not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	200,000	26/06/2002	Not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
	5,000,000				

Save as disclosed above, none of the Directors nor their associates, as at 31 December 2002, had any interest in securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Report of the Directors

2. Share Option Scheme

The fair value of the options granted in the year measured as at the date of grant on 26 June 2002 was HK\$0.28 per option. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (i) an expected volatility of 40.41 per cent.;
- (ii) expected annual dividend yield of 0 per cent.;
- (iii) the estimated expected life of the options granted during the year is 10 years. The quoted interest rate for the Exchange Fund Notes with maturity in 2012 was 5.80 per cent. which was adopted to calculate the fair value of options granted on 26 June 2002; and
- (iv) the stock price at the date of grant of option was assumed to be HK\$0.40 which represents the placing price adopted in the Prospectus as the date of grant of option was before the Listing date.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimated, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Up to 31 December 2002, no share option granted has been exercised.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following parties are interested in 10 per cent. or more of the Shares in issue:

Name of shareholder	Number of Shares beneficially held	Percentage of shareholding
Huby Technology	155,290,625	53.7 per cent.
Ms. Lee	165,625,000	57.3 per cent.
Ms. Leelalertsuphakun	163,290,625	56.5 per cent.

Save as disclosed above, as at 31 December 2002, the Directors were not aware of any other person having an interest in shares representing 10 per cent. or more of the Shares in issue.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2002, the following parties were the Management Shareholders of the Company and were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who are able to direct or influence the management of the Company:

Name of shareholder	Number of Shares beneficially held	Percentage of shareholding
Huby Technology	155,290,625	53.7 per cent.
Dynamic Achieve	8,000,000	2.8 per cent.
High Knowledge Investments Limited	16,000,000	5.5 per cent.
Ms. Lee	165,625,000	57.3 per cent.
Ms. Leelalertsuphakun	163,290,625	56.5 per cent.
Ms. Lue Shuk Ping, Vicky	16,000,000	5.5 per cent.

CONNECTED TRANSACTIONS

Details of the connected transactions that are required to be disclosed for the year are set out in note (28) to the financial statements. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

Report of the Directors

The independent non-executive Directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the Shareholders are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transactions.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

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.

STAFF RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

SPONSOR'S INTERESTS

As at 31 December 2002, the Company's sponsor, Asia Investment Capital Limited ("Asia Investment Capital") has confirmed that (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.

Report of the Directors

Pursuant to an agreement dated 4 October 2000 entered into between the Group and Asia Investment Capital, Asia Investment Capital has received and will receive a fee for acting as the Company's retained sponsor for the period from 16 July 2002 to 31 December 2004.

COMPETING INTERESTS

None of the Directors or the Management Shareholders (as defined in the GEM Listing Rules) had an interest in a business, which causes or may cause any significant competition with the business of the Group.

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events after the balance sheet date are set out in note (30) to the financial statements.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 26 June 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The Committee comprises an executive Director, namely, Ms. Lee and two independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob and Mr. Leung Yun Fai as its first members.

The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2002, two audit committee meetings were held for reviewing the Group's interim report and quarterly report, and providing advices and recommendations to the Board.

AUDITORS

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

On behalf of the Board



Lee Siu Fong
Chairman

Hong Kong, 27 March 2003

Report of the Auditors

HLM & CO.

恒健會計師行

Room 305, 3/F
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

TO THE MEMBERS

LEE'S PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2002 and of the loss and cashflows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

HLM & Co.

Certified Public Accountants

Hong Kong, 27 March 2003

Consolidated Income Statement

For the year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	(4)	11,644	10,346
Cost of sales		(3,200)	(2,466)
Gross Profit		8,444	7,880
Other revenue	(6)	216	737
Selling and distribution expenses		(5,030)	(5,383)
Administrative expenses		(8,415)	(5,232)
Loss from operations	(7)	(4,785)	(1,998)
Gain on disposal of technology of a developing Product		–	1,396
Finance costs	(8)	(596)	(715)
Loss before taxation		(5,381)	(1,317)
Taxation	(11)	–	–
Loss before minority interest		(5,381)	(1,317)
Minority interest		1,914	–
Net loss for the year		(3,467)	(1,317)
Dividends	(12)	–	–
		HK cents	HK cents
Loss per Share			
Basic	(13)	(1.42)	(0.72)
Diluted	(13)	(1.41)	(0.71)

Consolidated Balance Sheet

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Property, plant and equipment	(14)	15,483	10,523
Intangible assets	(15)	10,950	6,917
Pledged bank deposits		3,002	–
		<u>29,435</u>	<u>17,440</u>
Current assets			
Inventories	(17)	875	925
Amount due from a related company	(28)	103	105
Trade receivables	(18)	1,458	2,435
Other receivables, deposits and prepayments		1,153	1,938
Pledged bank deposits		1,346	–
Cash and bank balances		14,064	296
		<u>18,999</u>	<u>5,699</u>
Current liabilities			
Amount due to a director	(19)	–	325
Amount due to related companies	(28)	384	392
Trade payables	(20)	129	314
Other payables		4,170	3,698
Current portion of borrowings	(21)	7,620	3,631
		<u>12,303</u>	<u>8,360</u>
Net current assets (liabilities)		<u>6,696</u>	<u>(2,661)</u>
Total assets less current liabilities		<u>36,131</u>	<u>14,779</u>

Consolidated Balance Sheet

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Capital and reserves			
Share capital	(22)	14,461	18,400
Reserves		20,912	(14,337)
		<u>35,373</u>	<u>4,063</u>
Minority interest		–	–
Non-current liabilities			
Amount due to a related company		–	4,893
Borrowings	(21)	758	5,823
		<u>758</u>	<u>10,716</u>
		<u>36,131</u>	<u>14,779</u>

The financial statements on pages 22 to 52 were approved and authorised for issue by the Board of Directors on 27 March 2002 and are signed on its behalf by:



Lee Siu Fong
Director



Leelalertsuphakun Wanee
Director

Balance Sheet

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Intangible assets	(15)	3,840	-
Interests in subsidiaries	(16)	29,435	-
		<u>33,275</u>	<u>-</u>
Current assets			
Other receivables, deposits and prepayments		216	-
Cash and bank balances		13,181	-
		<u>13,397</u>	<u>-</u>
Current liabilities			
Other payables		224	-
		<u>224</u>	<u>-</u>
Net current assets		<u>13,173</u>	<u>-</u>
Total assets less current liabilities		<u>46,448</u>	<u>-</u>
Capital and reserves			
Share capital	(22)	14,461	-
Reserves	(23)	31,987	-
		<u>46,448</u>	<u>-</u>



Lee Siu Fong
Director



Leelalertsuphakun Wanee
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Revaluation reserve HK\$'000	Exchange reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	6,400	-	-	-	173	(13,005)	(6,432)
Issue of shares in exchange for assignment of loan made by Huby Technology Limited	12,000	-	-	-	-	-	12,000
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	-	(188)	-	(188)
Net loss for the year	-	-	-	-	-	(1,317)	(1,317)
At 31 December 2001	<u>18,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>(14,322)</u>	<u>4,063</u>
At 1 January 2002	-	-	-	-	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	9,200	-	9,200	-	-	-	18,400
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	480	3,360	-	-	-	-	3,840
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	571	3,082	-	-	-	-	3,653
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	116	631	-	-	-	-	747
Issue of Shares to Huby Technology Limited for cash	344	1,856	-	-	-	-	2,200
Issue of new Shares to public	3,750	26,250	-	-	-	-	30,000
Share issue expenses	-	(10,292)	-	-	-	-	(10,292)
Surplus on revaluation of property, plant and equipment not recognised in consolidated income statement	-	-	-	4,613	-	-	4,613
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	-	16	-	16
Net loss for the year	-	-	-	-	-	(3,467)	(3,467)
At 31 December 2002	<u>14,461</u>	<u>24,887</u>	<u>9,200</u>	<u>4,613</u>	<u>1</u>	<u>(17,789)</u>	<u>35,373</u>

The share capital shown on the consolidated balance sheet as at 31 December 2001 represents the nominal value of the share capital of Lee's Pharmaceutical (HK) Limited, the Company's subsidiary and the Group's then ultimate holding company, as at that date.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(5,381)	(1,317)
Adjustment for:		
Depreciation of property, plant and equipment	1,405	1,180
Interest expenses	590	714
Interest income	(103)	(7)
Amortisation of intangible assets	547	279
Loss on disposal of property, plant and equipment	2	–
Gain on disposal of technology of a developing product	–	(1,396)
Operating cash flow before movements in working capital	(2,940)	(547)
Decrease (increase) in inventories	50	(170)
Decrease in trade receivables	977	1,446
Increase in other receivables, deposits and prepayment	(615)	(21)
(Decrease) increase in trade payables	(185)	204
Increase in other payables	357	738
Cash (used in) generated from operations	(2,356)	1,650
Interest paid	(475)	(684)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(2,831)	966
INVESTING ACTIVITIES		
Interest received	103	7
Increase in bank deposits with maturity more than three months	(3,002)	–
Proceeds from transfer of technology of a developing products, net of sales tax	–	1,440
Purchase of property, plant and equipment	(64)	(546)
Additions of deferred development cost	(862)	(1,726)
NET CASH USED IN INVESTING ACTIVITIES	(3,825)	(825)

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
FINANCING ACTIVITIES		
Repayment of loans	(1,076)	(518)
Proceeds from share issue	32,200	–
(Repayment to) advance from a related company	(1,240)	587
Advance from a director and an ex-director of subsidiary	422	340
New loan raised	–	474
Payment of shares issuance expenditures	(8,892)	(900)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	21,414	(17)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,758	124
CASH AND CASH EQUIVALENTS AT 1 JANUARY	296	485
Effect of foreign exchange rate changes	356	(313)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	15,410	296
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	14,064	296
Pledged bank deposits	4,348	–
Less: Bank deposits with maturity more than three months	(3,002)	–
	15,410	296

Notes to the Financial Statements

For the year ended 31 December 2002

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 the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 issued by the Company dated 3 July 2002.

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 ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants (the "HKSA").

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

2. Adoption of statements of standard accounting practice

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the HKSA, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting year. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Adoption of statements of standard accounting practice *(Continued)*

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating/investing/financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee Benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. Significant accounting policies

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 December 2002

3. Significant accounting policies (Continued)

Turnover

Turnover represents the net amount received and receivable for goods sold to customers during the year.

Revenue recognition

Sales of other goods are recognised when goods are delivered and title has passed.

Interest income from bank deposit is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment other than land and buildings are stated at cost less depreciation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Notes to the Financial Statements

For the year ended 31 December 2002

3. Significant accounting policies (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Leasehold land	Over the term of the lease
Buildings	20 years
Plant and machinery	7 to 10 years
Office and laboratory equipment	3 to 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Research and development expenditure

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

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements

For the year ended 31 December 2002

3. Significant accounting policies (Continued)

Operating lease

Rentals applicable to operating leases are charged, on a straight-line basis, over the lease term to the income statement.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Notes to the Financial Statements

For the year ended 31 December 2002

3. Significant accounting policies (Continued)

Impairment of assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. Turnover

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

5. 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.

Notes to the Financial Statements

For the year ended 31 December 2002

6. Other revenue

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Other income	113	730
Interest income on bank deposits	103	7
	<u>216</u>	<u>737</u>

7. Loss from operations

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,405	1,180
Amortisation of intangible assets	547	279
	<u>1,952</u>	<u>1,459</u>
Total depreciation and amortisation		
Auditors' remuneration	446	5
Staff costs	3,848	3,163
Research and development costs	57	414
Operating lease payments in respect of rented premises	738	187
Loss on disposal of property, plant and equipment	2	-
Bad debts written off	212	312
Allowance for bad and doubtful debts (written back)	(89)	440
Stock written off (written back)	(12)	215

Notes to the Financial Statements

For the year ended 31 December 2002

8. Finance costs

Interest on:

- Bank loans and other borrowings wholly repayable within five year
- Amount due to a related company

Bank charges

The Group

2002 HK\$'000	2001 HK\$'000
561	684
29	30
590	714
6	1
596	715

9. Directors' emoluments

Directors' fees:

- Executive directors
- Independent non-executive directors

Other emoluments of executive directors:

- Salaries and other benefits
- Contributions to retirement benefits schemes

Total emoluments

2002 HK\$'000	2001 HK\$'000
–	–
96	–
1,295	–
24	–
1,415	–

The emoluments of each of the director did not exceed HK\$1,000,000 during the year.

Notes to the Financial Statements

For the year ended 31 December 2002

10. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2001: Nil) were directors of the Company whose emoluments are included in the disclosures in note (9) above. The emoluments of the remaining two (2001: five) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,114	1,278
Contributions to retirement benefits schemes	18	42
	<u>1,132</u>	<u>1,320</u>

The emoluments of each of the above non-director highest paid individuals did not exceed HK\$1,000,000 during the year.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Taxation

The charge comprises:

Profit for the year

Hong Kong

Other regions in the PRC

Taxation attributable to the Company and its subsidiaries

	The Group	
	2002 HK\$'000	2001 HK\$'000
Profit for the year		
Hong Kong	—	—
Other regions in the PRC	—	—
Taxation attributable to the Company and its subsidiaries	<u>—</u>	<u>—</u>

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

Notes to the Financial Statements

For the year ended 31 December 2002

11. Taxation (Continued)

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.

12. Dividends

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

13. 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	<u>HK\$3,467,000</u>	<u>HK\$1,317,000</u>
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	<u>1,500,000</u>	<u>1,500,000</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>246,158,562</u>	<u>185,500,000</u>

Notes to the Financial Statements

For the year ended 31 December 2002

14. Property, plant and equipment

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Office and laboratory equipment HK\$'000	Total HK\$'000
The Group				
COST OR VALUATION				
At 1 January 2002	6,430	5,594	2,144	14,168
Exchange rate adjustments	(216)	(101)	(34)	(351)
Additions	–	–	64	64
Surplus on valuation	6,590	–	–	6,590
Disposals	(2)	–	–	(2)
	<u>12,802</u>	<u>5,493</u>	<u>2,174</u>	<u>20,469</u>
At 31 December 2002	<u>12,802</u>	<u>5,493</u>	<u>2,174</u>	<u>20,469</u>
Comprising:				
At cost	–	5,493	2,174	7,667
At valuation	<u>12,802</u>	<u>–</u>	<u>–</u>	<u>12,802</u>
	<u>12,802</u>	<u>5,493</u>	<u>2,174</u>	<u>20,469</u>
DEPRECIATION AND IMPAIRMENT				
At 1 January 2002	639	1,762	1,244	3,645
Exchange rate adjustments	(11)	(32)	(21)	(64)
Charge for the year	488	557	360	1,405
	<u>1,116</u>	<u>2,287</u>	<u>1,583</u>	<u>4,986</u>
At 31 December 2002	<u>1,116</u>	<u>2,287</u>	<u>1,583</u>	<u>4,986</u>
NET BOOK VALUES				
At 31 December 2002	<u>11,686</u>	<u>3,206</u>	<u>591</u>	<u>15,483</u>
At 31 December 2001	<u>5,791</u>	<u>3,832</u>	<u>900</u>	<u>10,523</u>

Notes to the Financial Statements

For the year ended 31 December 2002

14. Property, plant and equipment (Continued)

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

The leasehold land and buildings of the Group in the PRC were valued at 30 April 2002 by Messrs. Vigers Hong Kong Limited, on an open market value basis. Messrs. Vigers Hong Kong Limited is not connected with the Group.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$5,409,000 (2001: HK\$5,794,000).

The Group has pledged land and buildings having a net book value of approximately HK\$11,686,000 to secure general banking facilities granted to the Group.

15. Intangible assets

	Development cost HK\$'000
The Group	
COST	
At 1 January 2002	7,196
Exchange rate adjustments	(127)
Additions	4,702
	<hr/>
At 31 December 2002	11,771
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 January 2002	279
Exchange rate adjustments	(5)
Charge for the year	547
	<hr/>
At 31 December 2002	821
	<hr/>
NET BOOK VALUES	
At 31 December 2002	10,950
	<hr/> <hr/>
At 31 December 2001	6,917
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2002

15. Intangible assets (Continued)

	Development cost HK\$'000
The Company	
COST	
At 1 January 2002	–
Additions	3,840
	<u>3,840</u>
At 31 December 2002	<u>3,840</u>

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

16. Interests in subsidiaries

	The Company	
	2002 HK\$'000	2001 HK\$'000
Investments at cost:		
Unlisted shares	1	–
Amounts due from subsidiaries	29,434	–
	<u>29,435</u>	<u>–</u>

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

Notes to the Financial Statements

For the year ended 31 December 2002

16. Interests in subsidiaries (Continued)

Details of the Company's principal subsidiaries as at 31 December 2002 are set out as follows:

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held		Place of incorporation/ registration	Principal activities
		Direct	Indirect		
Lee's Pharmaceutical International Limited	US\$1	100%	–	The British Virgin Islands	Investment holding
Lee's Pharmaceutical (HK) Limited	HK\$18,400,000	–	100%	Hong Kong	Investment holding and provision of management services
Hefei Siu-Fung USTC Pharmaceutical Company Limited ("Zhaoke")	US\$2,000,000	–	70%	PRC	Manufacture and sale of pharmaceutical products
Lee's Pharmaceutical (China) Limited	US\$1	–	100%	The British Virgin Islands	Not yet commenced business

Notes to the Financial Statements

For the year ended 31 December 2002

17. Inventories

	The Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	194	288
Work-in-progress	422	207
Finished goods	259	430
	<u>875</u>	<u>925</u>

Included above are raw materials which are carried at net realisable value of HK\$Nil (2001: HK\$117,000) at the balance sheet date.

18. 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 date.

	The Group	
	2002 HK\$'000	2001 HK\$'000
1-90 days	888	1,250
91-180 days	465	613
181-365 days	210	595
Over 365 days and under 3 years	501	672
	<u>2,064</u>	<u>3,130</u>
Less: Allowance for bad and doubtful debts	(606)	(695)
	<u>1,458</u>	<u>2,435</u>

Notes to the Financial Statements

For the year ended 31 December 2002

19. Amount due to a director

Director	Terms of loan	Balance at 31/12/2002 HK\$'000	Balance at 1/1/2002 HK\$'000
Ms. Lee Siu Fong	Unsecured, interest-free and with no fixed terms of repayment	–	325

20. Trade payables

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
1-90 days	67	241
91-180 days	–	23
181-365 days	–	–
Over 365 days	62	50
	<u>129</u>	<u>314</u>

21. Borrowings

	The Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans, secured by:		
The Group's land and buildings	2,452	1,857
Related party's assets	–	1,562
	<u>2,452</u>	<u>3,419</u>
Other loans, secured by:		
The Group's land and buildings	5,926	6,035
	<u>8,378</u>	<u>9,454</u>
Less: Amounts shown under current liabilities	7,620	3,631
	<u>758</u>	<u>5,823</u>

Notes to the Financial Statements

For the year ended 31 December 2002

21. Borrowings (Continued)

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Repayable:		
Within one year	7,620	3,631
In more than one year but not exceeding two years	427	5,024
In more than two years but not exceeding five years	331	799
	<u>8,378</u>	<u>9,454</u>
Less: Amounts due within one year classified as current liabilities	<u>7,620</u>	<u>3,631</u>
	<u>758</u>	<u>5,823</u>

22. Share capital

	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
Authorised:		
At 1 January 2002 and at 31 December 2002	<u>500,000,000</u>	<u>25,000</u>

Notes to the Financial Statements

For the year ended 31 December 2002

22. Share capital (Continued)

Issued and fully paid or credited as fully paid:

	Number of ordinary shares of		Amount	
	2002	2001	2002 HK\$'000	2001 HK\$'000
At 1 January	1	-	-	-
Shares issued on incorporation	-	1	-	-
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited (a)	184,000,000	-	9,200	-
Issue of Shares to Zengen Inc. as consideration for acquisition of Intangible asset (b)	9,599,999	-	480	-
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited (c)	11,415,625	-	571	-
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong (c)	2,334,375	-	116	-
Issue of Shares to Huby Technology Limited for cash (d)	6,875,000	-	344	-
Issue of new Shares to public (e)	75,000,000	-	3,750	-
At 31 December	<u>289,225,000</u>	<u>1</u>	<u>14,461</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31 December 2002

22. Share capital (Continued)

- (a) on 19 February 2002, Huby Technology Limited ("Huby Technology"), Dynamic Achieve Investments Limited ("Dynamic Achieve") and High Knowledge Investments Limited ("High Knowledge") transferred an aggregate of 17,600,000 shares of HK\$1 each in Lee's Pharmaceutical (HK) Limited ("Lee's HK") to Lee's Pharmaceutical International Limited ("Lee's International") in consideration of which the Company allotted and issued an aggregate of 176,000,000 Shares to Huby Technology, Dynamic Achieve and High Knowledge under a share exchange agreement dated 4 February 2002 and on the same day, Mapcal Limited also transferred the one subscriber Share to Huby Technology at a consideration of US\$1. On 19 February 2002, Techfarm Investment Limited ("Techfarm") transferred 800,000 shares of HK\$1 each in Lee's HK to Lee's International in consideration of which the Company allotted and issued 8,000,000 Shares to Techfarm under another share exchange agreement dated 4 February 2002.
- (b) on 25 February 2002, the Company allotted and issued to Zengen Inc. 9,599,999 Shares under a patent application license agreement dated 2 February 2002 and on the same day, Huby Technology also transferred the one subscriber Share to Zengen Inc. at a consideration of US\$1.
- (c) on 12 June 2002, the directors and shareholders of the Company resolved to: (i) capitalise an amount of HK\$3,653,000 out of HK\$5,319,478.71 owed to Huby Technology by its indirect wholly owned subsidiary, Lee's HK, by allotting and issuing 11,415,625 Shares, credited as fully paid, to Huby Technology; and (ii) capitalise an amount of HK\$747,000 owed to Ms. Lee Siu Fong ("Ms. Lee") by Lee's HK, by allotting and issuing 2,334,375 Shares, credited as fully paid, to Ms. Lee and on 20 June 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology and Ms. Lee.
- (d) on 12 June 2002, Huby Technology subscribed for 6,875,000 Shares at the issue price of HK\$0.32 each (or an aggregate amount of HK\$2,200,000) and at the direction of the Company, Huby Technology has paid the subscription monies to Lee's HK direct and on 20 June 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology.
- (e) on 15 July 2002, the Shares of the Company were listed on GEM by placing 75,000,000 new Shares to public at the issue price of HK\$0.40 each.

Notes to the Financial Statements

For the year ended 31 December 2002

23. Reserves

	Share premium HK\$'000	Merger difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Company				
At 1 January 2002	-	-	-	-
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	-	9,200	-	9,200
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	3,360	-	-	3,360
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	3,082	-	-	3,082
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	631	-	-	631
Issue of Shares to Huby Technology Limited for cash	1,856	-	-	1,856
Issue of new Shares to public	26,250	-	-	26,250
Share issue expenses	(10,292)	-	-	(10,292)
Net loss for the year	-	-	(2,100)	(2,100)
At 31 December 2002	<u>24,887</u>	<u>9,200</u>	<u>(2,100)</u>	<u>31,987</u>

The movements in the Group's reserves are shown in the consolidated statement of changes in equity on page 26.

The merger difference represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 2002.

Notes to the Financial Statements

For the year ended 31 December 2002

23. Reserves (Continued)

The Company's reserves available for distribution to shareholders as at 31 December 2002 was HK\$31,987,000 (2001: HK\$Nil).

The Company's reserves available for distribution represent the share premium, merger difference and accumulated losses. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

24. Major non-cash transactions

- (a) During the year ended 31 December 2002, 184,000,000 shares of HK\$0.05 each in the share capital of the Company were allotted in exchange for shares in Lee's Pharmaceutical (HK) Limited due to reorganisation.
- (b) During the year ended 31 December 2002, 9,599,999 shares of HK\$0.05 each in the share capital of the Company were allotted for acquisition of intangible assets from Zengen Inc.
- (c) During the year ended 31 December 2002, 11,415,625 shares of HK\$0.05 each in the share capital of the Company were allotted and issued as fully paid by the capitalisation of an amount of HK\$3,653,000 due to Huby Technology Limited.
- (d) During the year ended 31 December 2002, 2,334,375 shares of HK\$0.05 each in the share capital of the Company were allotted and issued as fully paid by the capitalisation of an amount of HK\$747,000 due to Ms. Lee Siu Fong.

Notes to the Financial Statements

For the year ended 31 December 2002

25. Commitments

(a) Capital commitments in respect of acquisition of property, plant and equipment

Contracted amount
Less: Deposit paid

2002 HK\$'000	2001 HK\$'000
160	182
(48)	(46)
<u>112</u>	<u>136</u>

(b) Operating lease commitments in respect of land and buildings which fall due as follows:

Within one year
In more than one year
but not exceeding five years

2002 HK\$'000	2001 HK\$'000
597	631
123	394
<u>720</u>	<u>1,025</u>

(c) Lee's Pharmaceutical (HK) Limited entered into an agreement with the Hong Kong University of Science and Technology on 16 May 2001 to carry out a research and development project which aims at finding "inhibitors" by screening of human heparanase inhibitors as anti-cancer drugs from Traditional Chinese Medicine. The total project cost was HK\$2,760,000. The Company is required to contribute HK\$1,380,000. According to the agreement, the project will be completed on 31 March 2004. As at 31 December 2002, the Company had already paid HK\$935,018 for the project.

Notes to the Financial Statements

For the year ended 31 December 2002

26. Share options scheme

At 31 December 2002, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Date of grant options	Number of shares under share	Exercise price per	Exercise period
26/6/2002	2,500,000	HK\$0.28	26/6/2004 to 25/6/2012
26/6/2002	2,500,000	HK\$0.28	26/6/2005 to 25/6/2012

27. Pledged of assets

At the balance sheet date, the Group pledged land and buildings with an aggregate amount of HK\$11,686,000 (2001: HK\$5,319,000) and fixed deposits of HK\$4,348,000 (2001: HK\$Nil) to banks and other institutions to secure general credit facilities granted to the Group.

28. Related parties transactions and balances

During the year, the Group entered into the following transactions and balances with related parties:

	Interest payable		Amounts due from a related company		Amounts due to related companies	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
University of Science and Technology of China Biotechnology Company	-	-	103	105	-	-
科大技術實業總公司	-	-	-	-	12	12
University of Science and Technology of China ("USTC")	29	30	-	-	372	380
Huby Technology Limited	-	-	-	-	-	4,893

Notes to the Financial Statements

For the year ended 31 December 2002

28. Related parties transactions and balances (Continued)

University of Science and Technology of China Biotechnology Company is a minority shareholder of the Company's subsidiary, Zhaoke. The amount due therefrom is unsecured, interest-free and has no fixed terms of repayment.

USTC is considered a related party of the Group as it is subject to common control or common significant influence as the minority shareholder of the Group's member, Zhaoke. The amount due thereto is unsecured, bears interest at 7.92 per cent. per annum commencing from 15 September 1997 for a term of two years. The amount has been overdue. No settlement has been made subsequent to 31 December 2001.

科大技術實業總公司 is considered a related party of the Group as it is subject to common control or common significant influence as the minority shareholder of the Group's member, Zhaoke. The amount due thereto is unsecured, interest-free and has no fixed terms of repayment.

29. Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5 per cent. of relevant payroll costs to the Scheme, which contribution is matched by employees.

The total cost charged to income of HK\$70,000 (2001: HK\$44,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2002, contributions of HK\$16,000 (2001: HK\$4,000) due in respect of the reporting period had not been paid over to the schemes.

30. Post balance sheet event

On 13 January 2003, the Company granted an offer of 3,929,000 share options with exercise price of HK\$0.405 per share to directors and employees under the Share Option Scheme of the Company adopted on 26 June 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Lee's Pharmaceutical Holdings Limited ("the Company") will be held at Kennedy Room, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 29 April 2003 at 4:30 p.m. for the following purposes:

As ordinary business:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2002.
2. To re-elect the retiring directors and to authorise the board of directors (the "Board") to fix the directors' remunerations.
3. To re-appoint auditors and to authorise the Board to fix their remunerations.


As special business:

4. To consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:

A. "THAT

- (a) subject to paragraph A(b) below, a general mandate be and is hereby generally and unconditionally approved to the directors of the Company (the "Directors") is to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph A(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:

Notice of Annual General Meeting

- 
- (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory applicable to the Company); or
 - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the bye-laws of the Company;
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law of Cayman Islands to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting"

Notice of Annual General Meeting

B. "THAT

- (a) subject to paragraph B(b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed (as amended from time to time), be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph B(a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph B(a) shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law of Cayman Islands to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting"

Notice of Annual General Meeting

- C. **"THAT** conditional upon Ordinary Resolutions 4A and 4B being passed, the general mandate granted to the Directors pursuant to Ordinary Resolution 4A to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 4B, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

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

Hong Kong, 28 March 2003

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy must be deposited with the Company's Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Room 1901-5 Hopewell Centre, 183 Queen's Road East, Hong Kong together with any power of attorney or other authority (if any), under which it is signed, or a notary certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or any adjournment.
- (3) The register of members of the Company will be closed from Friday, 25 April 2003 to Tuesday, 29 April 2003, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, Room 1901-5 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Thursday, 24 April 2003.
- (4) A circular containing further details regarding Resolution no. 4 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be dispatched to shareholders together with 2002 Annual Report.