



ANNUAL REPORT 2003

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)

* For identification purposes only

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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*)

Dr. Li Xiaoyi

Independent Non-executive Directors

Dr. Chan Yau Ching, Bob

Mr. Leung Yun Fai

COMPLIANCE OFFICER

Ms. Lee Siu Fong

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

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

PLACE OF BUSINESS IN HONG KONG

Room 1905, Grand Millennium Plaza

Lower Block, 181 Queen's Road Central

Hong Kong

REGISTERED OFFICE

M&C Corporate Services Limited

P.O. Box 309 GT, Uglan House

South Church Street

Grand Cayman, Cayman Islands

COMPANY WEBSITE

www.leespharm.com

AUDIT COMMITTEE

Ms. Lee Siu Fong

Dr. Chan Yau Ching, Bob

Mr. Leung Yun Fai

AUTHORIZED REPRESENTATIVE

Ms. Lee Siu Fong

Ms. Leelalertsuphakun Wanee

AUDITORS

HLM & Co.

LEGAL ADVISERS

Arculli and Associates (Hong Kong law)

Beijing Wuhuan Law Firm (PRC law)

SPONSOR

Kingsway Capital Limited

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

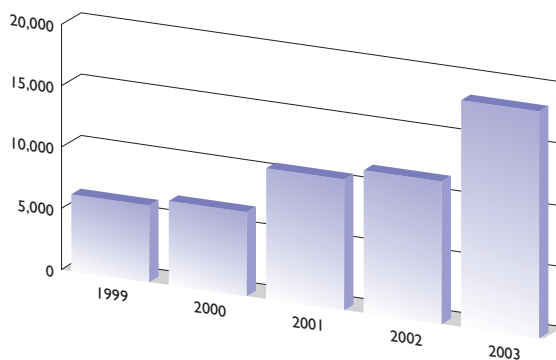
Room 1901-5, Hopewell Centre

183 Queen's Road East, Hong Kong

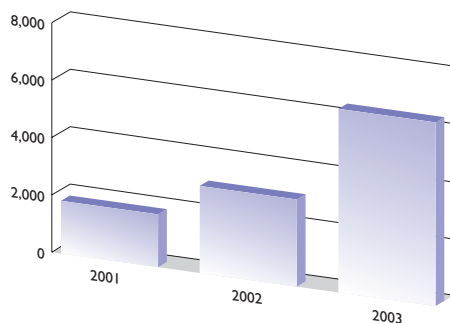
Financial Highlights

	Financial year ended 31 December				
	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	18,498	11,644	10,346	6,852	6,253
Gross profit	13,364	8,444	7,880	4,914	3,828
Loss from operations	(4,826)	(4,785)	(1,998)	(5,204)	(6,407)
Current ratio	1.71	1.54	0.68	0.42	0.86

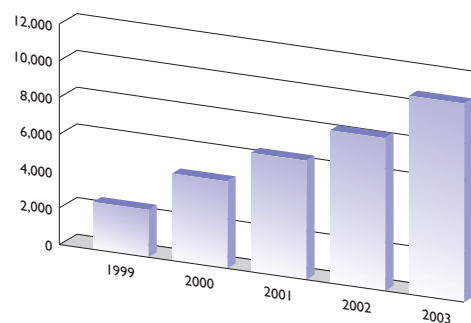
Turnover of the Group (HK\$'000)



Yallaferon – Turnover (H.K.\$'000)



Livaracine – Turnover (HK\$'000)



Chairman's Statement

It gives me great pleasure to present the annual audited consolidated results of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2003.

For the Group, 2003 marked the first year that the Group have begun entering into its accelerated growth stage, reflected by an 58.86% increase in turnover over that of 2002. Both of the Group's flagship products, «Livaracine» and «Yallaferon», registered an 48.53% and 101.73% increase respectively in sales volume in comparison with those of 2002. With the installation of new leadership, the Group's distribution and sales network has continued to expand and mature, providing solid ground for more rapid growth.

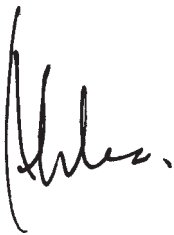
The Group's drug development pace was also quicken during the year under review. A total of 8 applications were submitted to the State Food and Drug Administration ("SFDA") of the People's Republic of China (the "PRC") for approval of clinical study and two clinical studies were carried out during the year. Two of the Group's applications (1.1 category drugs) were reviewed by China Center for Drug Evaluation with the participation of the Group's representatives and outside experts during specially arranged session. We expect to start the phase I clinical study for one of the drugs later this year. In addition, the Group has received three drug registrations in Hong Kong during the year for which a team has been set up to market those products, further broadening the revenue base of the Group.

The Group's efforts in forming strategic alliance and partnership have become fruitful during the year under review. An exclusive distributorship was entered into between the Group and Sigma-Tau Industrie Farmaceutiche Riunite SpA ("Sigma-Tau"), one of the biggest independent pharmaceutical companies in Italy for «L-carnitine», which brings synergy to the Group's existing products as well as immediate revenue to the Group. The Group has also successfully licensed a technology with exclusivity from National Institutes of Health ("NIH") of the United States of America ("US"), one of the most premier biomedical science research institute in the world, further boosting the Group's already rich pipeline. Discussions are underway with several other biotech and pharmaceutical companies for additional technologies and products for development and marketing in both PRC and Hong Kong.

As the Group continues its relentless efforts of seizing growth opportunities, I am confident that the Group will keep up with its rapid pace of growth in the coming year and achieve improvement in every aspect of an integrated biopharmaceutical company, including but not limited to sales and marketing, drug development, manufacturing, human resource development and quality control and assurance.

Chairman's Statement

Finally, on behalf of the board (the "Board") of Directors (the "Directors"), 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, 25 March 2004

Management Discussion and Analysis

BUSINESS REVIEW

During the year 2003, the Group had made significant progress in all aspects as a dynamic and integrated biopharmaceutical group engaging in development, manufacturing and sales of proprietary and license-in drugs in the PRC and Hong Kong.

Drug development

The Group continued its efforts to expand clinical applications for its proprietary drugs. During the year, approvals were received from the SFDA of the PRC to initiate clinical studies on recurrence rate reduction of venereal warts, herpes zoster and cervicitis for «Yallaferon». Moreover, approval to initiate clinical study on nephritic syndrome for «Livaracine» was also obtained from the SFDA in the year.

The Group's project "Screening of Human Heparanase Inhibitors as Anti-Cancer Drugs from Traditional Chinese Medicine" co-operated with the Department of Biology of Hong Kong University of Science and Technology ("HKUST") has discovered several "hits" from extracts derived from herbal medicines. Work is underway to optimize those "hits" and to file patent applications for these findings. Both the Group and HKUST expect the development of the project at good pace.

At the end of the year, the Group has been invited to attend a technical evaluation meeting held by SFDA regarding the Group's new drug application on Anti-fungus Peptide and Declotana. This meeting was the first kind of the SFDA in which the new drug applicant could discuss the drug technology by two-way communication. The Group was really grateful and excited with its products to be chosen as the project of the first meeting.

Products registration

During the year, the Group has obtained certification of drug registration from the Department of Health, Hong Kong for its three license-in drugs, namely «Gliconorm» from Italy for treatment of diabetes, «ArginMax» from US as health supplement and the antibiotic, «Sumamed» from Croatia.

Partnerships

The Group has obtained an exclusive distribution rights from a US biopharmaceutical company, PRB Pharmaceuticals Inc. of «Vira-38°» for treatment of influenza.

The Group has entered into an exclusive license agreement with the NIH of US for the development and commercialization of a proprietary technology titled "the methods and compositions for the promotion of hair growth utilising actin-binding peptides" for the territories of PRC, Hong Kong and Taiwan.

Management Discussion and Analysis

During the year, the Group has signed distribution agreement with the biggest independent pharmaceutical company in Italy, Sigma-Tau, under which the Group received exclusive rights to distribute Sigma-Tau's «L-carnitine» for cardiac diseases in the PRC.

Community efforts

During the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the year, the Group has donated 15,000 tubes of «Yallaferon» to 小湯山傳染病醫院 in Beijing, 5,000 tubes of «Yallaferon» to Chinese Center for Disease Control and Prevention (“Chinese CDC”) and 2,400 tubes of «Yallaferon» to hospitals in Anhui Province, PRC for the use of frontline workers in the prevention of SARS.

Sales and marketing

For the PRC operation, sales and marketing teams had been restructured during the year with the appointment of Ms. Leelalertsuphakun Wanee as chief marketing officer. Moreover, medical promotion department was newly set up to enhance the marketing efforts in the PRC.

In November 2003, the setting up of sales and marketing department for Hong Kong market has been completed with the leadership of two sales and marketing managers who have years of experience in major multinational pharmaceutical companies in Hong Kong.

FINANCIAL REVIEW

Financial Performance

For the year ended 31 December 2003, the Group's turnover achieved an 58.86% increase to HK\$18.50 million as compared with last year. The Group's overall gross margin had dropped slightly to approximately 72.25% in 2003 from that of 72.52% in 2002 because of the commencement of selling license-in product with lower gross margin of 22.27%. Loss before minority interest was HK\$5.36 million in 2003 (2002: HK\$5.35 million).

Turnover for the year under review included the Group's sales of license-in product of approximately HK\$1.08 million which was only launched in November of 2003.

Sales of proprietary drug, «Livaracine», was approximately HK\$10.80 million representing 58.41% of the Group's total turnover. «Livaracine» has increased by 30.00% over last year and was still in its growing path. The persistent increase in turnover was mainly attributed to the wider acceptance of «Livaracine» by medical professionals in the PRC.

Sales of the Group's another flagship product, «Yallaferon», increased by 110.65% over last year which was mainly resulted from the widely use of «Yallaferon» in the prevention of SARS in the PRC.

Management Discussion and Analysis

Selling and distribution expenses to turnover ratio continually reduced from 43.20% in 2002 to 37.03% in 2003 due to tight control of expenses and successful implementation of sales strategy.

The administration expenses were HK\$12.05 million for 2003 (2002: HK\$8.42 million), representing an increase of 43.24% compared to the previous year. Since the listing of the Company's shares (the "Shares") on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2002, the administrative expense for statutory compliance increased then. As compared with the second half year of 2002, administrative expenses for current year were slightly increased by 9.64% only. The increase was mainly attributed to the one-off payment incurred on departure of a director and fee paid to an overseas consultant who is responsible for searching strategic alliance with overseas pharmaceutical companies.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2003.

Liquidity, Financial Resources and Treasury Policies

During the year under review, the Group financed its operations by internally generated cash flow, banking facilities provided by banks and a portion of the listing net proceeds.

As of 31 December 2003, the Group had cash and bank balances and the pledged bank deposits of approximately HK\$12.53 million (2002: HK\$18.41 million). In terms of liquidity, the current ratio (current assets/current liabilities) was improved to about 1.71 times (2002: 1.54 times). 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 2003, the Group has long term debts of approximately HK\$4.85 million and shareholders' funds of approximately HK\$29.04 million. Its gearing ratio (long term debts to shareholders' funds plus long term debts) was 14.31% as at 31 December 2003 (2002: 4.71%).

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.

Management Discussion and Analysis

Charges on Group Assets

As at 31 December 2003, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK\$11.13 million (2002: HK\$11.69 million) have been pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of about HK\$8.33 million were pledged as securities for banking facilities as at 31 December 2003 (2002: HK\$4.35 million).

Employee Information

As at 31 December 2003, the Group employs a total of 149 full time employees (2002: 115) with a total staff cost in the year of approximately HK\$4.78 million (2002: HK\$3.85 million).

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, US dollars and European dollars. The Directors believe that the Group does not have foreign exchange 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

As at 31 December 2003, the Company had issued corporate guarantees of HK\$5.00 million (2002: nil) and fixed deposits of HK\$8.33 million (2002: HK\$4.35 million) to banks in respect of banking facilities granted to its subsidiary of which approximately HK\$3.36 million had been utilised.

BUSINESS OUTLOOK

The Group is optimistic about its prospects for 2004 and is confident to achieve significant growth in turnover and overall profit. For the two existing proprietary drugs, «Livaracine» and «Yallaferon», the Group expects to continue its sales efforts to keep up with the growth pace. Moreover, in the coming year, the Group will devote much marketing and promotional efforts for its license-in products to the best extent possible.

Last, but not the least, the Group will continue to broaden the revenue base of the Group by launching additional products in Hong Kong market and build up strong pipeline by aggressively forming partnerships with reputable research institute and biopharmaceutical companies to achieve sustainable growth.

Management Discussion and Analysis

USE OF PROCEEDS

The net proceeds after deducting the listing expenses had been utilised in line with the terms stipulated in the prospectus issued by the Company dated 3 July 2002 (the "Prospectus") and applied as follows:

	Planned use of proceeds according to the Prospectus	Actual amount utilised from 15 July 2002 (the date of listing) to 31 December 2003	<i>Notes</i>
	HK\$'000	HK\$'000	
For production	5,594	1,302	(a)
For sale and marketing	2,562	2,042	(b)
For research and development	2,485	1,410	(c)
Repayment of third party loans	2,984	1,592	(d)
For additional working capital	1,008	1,008	
	<u>14,633</u>	<u>7,354</u>	

Notes:

- (a) In view of the level of sales increment and the progress of new products development, the Directors delayed the budgeted expansion of various production facilities and systems. It is expected new equipment for expansion may not be required until 2004. Please also refer to "Comparison of Business Objectives and Actual Progress" section for further details.
- (b) The original planned fund for advertising and marketing of new products has not been used as the progress of new products development has been delayed due to various reasons. For details, please refer to "Comparison of Business Objectives and Actual Progress" section.
- (c) The funding for research and development has not been used up as the development progress of various projects has been delayed due to reasons stated in "Comparison of Business Objectives and Actual Progress". Though the schedule of self developed projects has been hindered, sales of several license-in drugs will generate the Group's total revenue to grow even faster than expected.
- (d) The loan due to a third party lender with expiry in December 2002 has not been repaid because the loan is a kind of local Government subsidy to high technology enterprises and the Company continues to receive such support.

Comparison of Business Objectives and Actual Progress

Business Objectives up to 31 December 2003 as stated in Prospectus	Actual Progress up to 31 December 2003
<p>Sales and marketing:</p> <ul style="list-style-type: none"> • Establish Chengdu and Wuxi branch office to expand the Group's sales efforts • Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts • Launch (i) Hemocoagulase; (ii) protein-free calf blood extract eye gelatin and (iii) Livaracine for new indication into the market 	<ul style="list-style-type: none"> • Having reviewed the Group's sales and marketing strategy from time to time, the Group has decided that current focus should be on strengthening the existing offices of Guangzhou, Shanghai and Beijing, rather than setting up new offices in Chengdu and Wuxi. The Group believes that such approach is the most cost efficient and brings the most positive impact on the Group's sales and marketing efforts. Since then, the Group has more than doubled the resources to those existing offices. • Sales and marketing team of Guangzhou sales office and Shanghai branch office have been restructured during the year under review. Additional staffs of more than 50% have been recruited to strengthen the whole sales team in the PRC in the year. • Since the new products were not ready for market due to delay in research and development progress as discussed below, the respective launching exercise was postponed accordingly.

Comparison of Business Objectives and Actual Progress

Business Objectives up to 31 December 2003 as stated in Prospectus	Actual Progress up to 31 December 2003
<p>Research and development:</p> <ul style="list-style-type: none"> • Declotana: <ul style="list-style-type: none"> (i) Submit application for clinical trials; (ii) Enter phase II clinical trial • Topical Gel Livaracine: <ul style="list-style-type: none"> (i) Submit application for clinical trials; (ii) Commence phase II clinical trials • Hemocoagulase: submit application for clinical trials • Protein-free Calf Blood Extract Eye Gelatin: commence phase II clinical trials • Livaracine for new indication: commence phase II clinical trials • Anti-fungus Peptide: <ul style="list-style-type: none"> (i) Commence phase I clinical trial (ii) Commence phase II clinical trial 	<ul style="list-style-type: none"> • The application for clinical trials had been submitted and the technical evaluation meeting was just held in mid-December 2003 by SFDA for approval discussion. Clinical trial is expected to be carried out in the first quarter of 2005. • The development works are still underway and few technical issues have to be addressed before it is ready for application. The Directors do not expect to file the application for clinical trial before the end of 2004. • The application has been submitted. • The formal approval for clinical study is expected soon and clinical study is expected to start in the second quarter of 2004. • The commencement date of the study has been pushed back due to the Group's need to prioritise its resources. It is expected now to initiate the study in the first quarter of 2005. • After the special review session that involved the Group and outside experts, additional materials are requested by the SFDA and the Group is working on them now. Resubmission will be made by end of March 2004 and phase I study is expected to start in the third quarter of 2004.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Ms. Lee Siu Fong (“Ms. Lee”), aged 47, 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 and Dr. Li Xiaoyi.

Ms. Leelalertsuphakun Wanee (“Ms. Leelalertsuphakun”), aged 50, is the Managing Director and the Chief Marketing Officer of the Company. She joined the Group in April 1997. In September 2003, Ms. Leelalertsuphakun was appointed the Chief Marketing Officer and is responsible for the Group’s sales and marketing activities. Ms. Leelalertsuphakun is the sister of Ms. Lee and Dr. Li Xiaoyi.

Dr. Li Xiao Yi (“Dr. Li”), aged 41, is the Chief Executive Officer and 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 daily operation and research and development of the Group. Dr. Li is the brother of Ms. Lee and Ms. Leelalertsuphakun.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yau Ching, Bob (“Dr. Chan”), aged 41, 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 (“Mr. Leung”), aged 46, 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.

Directors and Senior Management Profiles

SENIOR MANAGEMENT

Professor Wang Xian Shun, aged 67, 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 45, 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.

Ms. Mok Sau Man, Joanna, is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company. She holds a master degree in business administration from University of Leicester. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in 2001, she worked in auditing, accounting and financial field for more than ten years.

Report of the Directors

The Board is pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 30.

The Board does not recommend the payment of any dividend for the year ended 31 December 2003.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 60 and 61 in the annual report.

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 21 and 24 to the financial statements.

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.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 22 to the financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statements of changes in equity.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$28.13 million. This includes the Company's share premium in the amount of HK\$24.89 million at 31 December 2003, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 21.73% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 6.14% of the Group's total turnover.

Purchase from the Group's five largest suppliers accounted for approximately 73.71% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 23.77% of the Group's total purchases.

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

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Lee Siu Fong

Leelalertsuphakun Wanee

Li Xiaoyi (appointed on 1 September 2003)

Lau Tai Wai (resigned on 24 September 2003)

Independent non-executive directors:

Chan Yau Ching, Bob

Leung Yun Fai

In accordance with article 112 of the Company's articles of association, Dr. Chan Yau Ching, Bob will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Report of the Directors

The directors of the Company, 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 annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Company or any of its subsidiaries to which any of the Directors 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 under review.

DIRECTORS' SERVICE CONTRACTS

One of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years and has the right to renew for an additional period of three years upon mutual agreement. Each of the remaining two executive directors has entered into a service contract with the Company on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing, or by payment of three months' salary in lieu of such notice.

The independent non-executive directors have no fixed term of office but are subject to the provisions of retirement and rotation of directors under the Articles of Association of the Company.

None of the directors being 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.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company, among others, conditionally adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), principal terms of which are set out in the Prospectus.

On 26 June 2002, options to subscribe for an aggregate of 5,000,000 Shares at a subscription price of HK\$0.280 per Share were granted to certain employees and two executive Directors pursuant to the Pre-IPO Share Option Scheme, particulars of which are set out in the Prospectus. Such options will, in respect of not more than 50% 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).

Report of the Directors

Pursuant to the Share Option Scheme, certain executive, independent non-executive Directors and employees were granted options on 13 January 2003 to subscribe for 3,929,000 Shares at a subscription price of HK\$0.405 per Share. The share options will be exercisable not less than six months but not more than ten years from the date of grant, i.e. during the period from 13 July 2003 to 12 January 2013 (both days inclusive).

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

The following table summarized movements in the Company's share options during the year:

	Option type	Outstanding at 01.01.2003	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2003
<i>Category 1: Directors</i>							
	Lee Siu Fong	A	1,600,000	-	-	-	1,600,000
	Lau Tai Wai	A	3,000,000	-	-	3,000,000	-
	Leelalertsuphakun Wanee	B	-	289,000	-	-	289,000
	Li Xiaoyi	B	-	2,890,000	-	-	2,890,000
	Chan Yau Ching, Bob	B	-	100,000	-	-	100,000
	Leung Yun Fai	B	-	100,000	-	-	100,000
	Total directors		4,600,000	3,379,000	-	3,000,000	4,979,000
<i>Category 2: Employees</i>							
		A	400,000	-	-	-	400,000
		B	-	550,000	-	-	550,000
	Total employees		400,000	550,000	-	-	950,000
	Total all categories		5,000,000	3,929,000	-	3,000,000	5,929,000

Notes: Option type "A" represents Pre-IPO Share Option Scheme while "B" represents Share Option Scheme.

Report of the Directors

The fair value of the options granted in the year measured as at the date of grant on 13 January 2003 was HK\$1,049,517. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 49.08%;
2. expected annual dividend yield of 0%;
3. the estimated expected life of the options granted during the year is 10 years; and
4. the quoted interest rate for the Exchange Fund Notes with maturity in 2013 was 4.687% which was adopted to calculate the fair value of options granted on 13 January 2003.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. As 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 2003, no share option granted has been exercised.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2003, the interests and short positions of the Directors and chief executives in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

Long positions in Shares

Name of director	Notes	Number of issued Ordinary Shares of HK\$0.05 each in the Company held and nature of interest			Total	Percentage of issued share capital
		Personal Interest	Corporate Interest	Family Interest		
Lee Siu Fong	(i)	2,334,375	163,290,625	–	165,625,000	57.27%
Leelalertsuphakun Wanee	(ii)	–	163,290,625	–	163,290,625	56.46%
Li Xiaoyi	(iii)	–	–	16,000,000	16,000,000	5.50%

Notes:

- (i) 2,334,375 Shares are held personally by Ms. Lee and 163,290,625 Shares are held 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.
- (ii) 163,290,625 Shares are 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.
- (iii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

Report of the Directors

Long positions in underlying Shares of equity derivatives

Pursuant to the Pre-IPO Share Option Scheme, two executive Directors were granted share options to subscribe for Shares of the Company, details of which as at 31 December 2003 were as follows:

Name	Date granted	Exercisable period (both dates inclusive)	Exercising price HK\$	Outstanding at 01.01.2003	Lapsed during the year	Outstanding at 31.12.2003
Lee Siu Fong	26.06.2002	26.06.2004 to 25.06.2012	0.280	1,600,000	–	1,600,000
Lau Tai Wai (Note)	26.06.2002	26.06.2004 to 25.06.2012	0.280	3,000,000	3,000,000	–

These options expire ten years from the date of grant (i.e. 26 June 2002) with 50% exercisable not less than two years but not more than 10 years, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive). In respect of the unexercised balance thereof be exercisable not less than three years but not more than 10 years, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Note: Mr. Lau Tai Wai resigned as director with effect from 24 September 2003 and the outstanding share options granted to him shall thereby lapse in accordance with the Rules of Pre-IPO Share Option Scheme adopted on 26 June 2002.

Report of the Directors

Pursuant to the Share Option Scheme, certain executive and independent non-executive Directors were granted share options on 13 January 2003 to subscribe for Shares of the Company, details of which as at 31 December 2003 were as follows:

Name	Date granted	Exercisable period (both dates inclusive)	Exercising price HK\$	Outstanding at 01.01.2003	Granted during the year	Lapsed during the year	Outstanding at 31.12.2003
<i>Executive Directors</i>							
Leelalertsuphakun Wanee	13.01.2003	13.07.2003 to 12.01.2013	0.405	-	289,000	-	289,000
Li Xiaoyi	13.01.2003	13.07.2003 to 12.01.2013	0.405	-	2,890,000	-	2,890,000
<i>Independent Non-executive Directors</i>							
Chan Yau Ching, Bob	13.01.2003	13.07.2003 to 12.01.2013	0.405	-	100,000	-	100,000
Leung Yun Fai	13.01.2003	13.07.2003 to 12.01.2013	0.405	-	100,000	-	100,000

Short positions in Shares

No short positions of Directors and chief executives in the Share of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Short positions in underlying Shares of equity derivatives

No short positions of Directors and chief executives in the underlying Share of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors and Chief Executives' Interests and Short Positions in the Shares and Underlying Shares" above and the share option scheme disclosures in note 24 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2003, the following persons had interests directly or indirectly or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

Long positions in Shares

Name	<i>Notes</i>	Number of Shares beneficially held	Nature of interest	Percentage of shareholding
Lee Siu Fong		2,334,375	Personal	0.8%
Lee Siu Fong	(i)	163,290,625	Corporate	56.5%
Total of Lee Sui Fong		165,625,000		57.3%
Huby Technology Limited		155,290,625	Corporate	53.7%
Leelalertsuphakun Wanee	(ii)	163,290,625	Corporate	56.5%
High Knowledge Investments Limited	(iii)	16,000,000	Corporate	5.5%
Lue Shuk Ping, Vicky	(iii)	16,000,000	Corporate	5.5%

Report of the Directors

Notes:

- (i) Among the 163,290,625 Shares, 155,290,625 Shares are held by Huby Technology and 8,000,000 Shares are held by Dynamic Achieve, and in both companies, 50% of their respective entire issued capitals are legally and beneficially owned by Ms. Lee.
- (ii) Among the 163,290,625 Shares, 155,290,625 Shares are held by Huby Technology and 8,000,000 Shares are held by Dynamic Achieve, and in both companies, 50% of their respective entire issued capitals are legally and beneficially owned by Ms. Leelalertsuphakun.
- (iii) These Shares are legally owned by High Knowledge, which is entirely and beneficially owned by Dr. Li's spouse, Ms. Lue.

Long positions in underlying Shares of equity derivatives

Name	Nature of interest	Number and description of equity derivatives	Number of underlying shares
Lee Siu Fong	Personal	Pre-IPO share option to subscribe for 1,600,000 Shares pursuant to the Pre-IPO Share Option Scheme	1,600,000
Leelalertsuphakun Wanee	Personal	Share option to subscribe for 289,000 Shares pursuant to the Share Option Scheme	289,000
Lue Shuk Ping, Vicky	Family	Dr. Li, husband of Ms. Lue, has been granted share option to subscribe for 2,890,000 Shares under Share Option Scheme, therefore Ms. Lue is deemed to be interested in such number of Shares	2,890,000

Short positions in Shares

No short positions of other persons and substantial shareholders in the Shares were recorded in the register.

Short positions in underlying Shares of equity derivatives

No short positions of other persons and substantial shareholders in the underlying Share of the equity derivatives of the Company were recorded in the register.

Report of the Directors

CONNECTED TRANSACTIONS

Details of the connected transactions that are required to be disclosed for the year are set out in note 26 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.

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 of the Company 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities during the year ended 31 December 2003 (2002: Nil).

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 throughout the year ended 31 December 2003.

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

Pursuant to the sponsor agreement dated 13 February 2004 entered into between the Company and Kingsway Capital Limited ("Kingsway"), Kingsway is entitled to receive a fee for acting as the Company's continuing sponsor for the period from 16 February 2004 to 31 December 2004 or until the sponsor agreement is terminated upon the terms and condition set out therein.

Kingsway has confirmed that save for the above, (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group as at 31 December 2003.

Report of the Directors

Pursuant to the agreement dated 4 October 2000 entered into between the Company and Goldbond Capital (Asia) Limited (formerly known as Asia Investment Capital Limited) (“Goldbond Capital”), whereby, for a fee, Goldbond Capital would act as the Company’s sponsor for the period from 15 July 2002 to 31 December 2004. The Company and Goldbond Capital have mutually agreed to terminate the engagement of Goldbond Capital as sponsor to the Company with effect from 16 February 2004.

COMPETING INTERESTS

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

AUDIT COMMITTEE

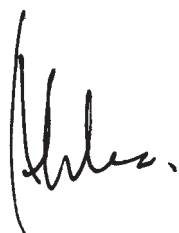
The Company set up an audit committee (the “Committee”) on 26 June 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The Committee comprises an executive Director, namely, Ms. Lee Siu Fong and two independent non-executive Directors, namely, Dr. Chan 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 2003, four audit committee meetings were held to review and comment on the Group’s draft annual, interim and quarterly financial reports, met with the external auditors and provided advices and recommendations to the Board.

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, 25 March 2004

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 OF
LEE'S PHARMACEUTICAL HOLDINGS LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 30 to 59 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, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 and of the loss and cash flows 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.

Certified Public Accountants

Hong Kong, 25 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 (Restated) HK\$'000
Turnover	4	18,498	11,644
Cost of sales		(5,134)	(3,200)
Gross Profit		13,364	8,444
Other revenue	6	714	216
Selling and distribution expenses		(6,850)	(5,030)
Administrative expenses		(12,054)	(8,415)
Loss from operations	7	(4,826)	(4,785)
Finance costs	8	(593)	(596)
Loss before taxation		(5,419)	(5,381)
Taxation	11	56	32
Loss before minority interest		(5,363)	(5,349)
Minority interest		–	1,621
Net loss for the year		(5,363)	(3,728)
Dividends	12	–	–
		HK cents	HK cents
Loss per Share			
Basic	13	(1.85)	(1.52)
Diluted	13	(1.85)	(1.51)

Consolidated Balance Sheet

At 31 December 2003

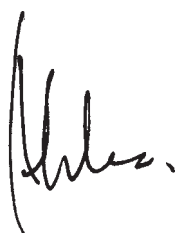
	Notes	2003 HK\$'000	2002 (Restated) HK\$'000
Non-current assets			
Property, plant and equipment	14	15,124	15,483
Intangible assets	15	11,177	10,950
Deferred tax assets		8	–
Pledged bank deposits		–	3,002
		<u>26,309</u>	<u>29,435</u>
Current assets			
Inventories	17	2,218	875
Amount due from a related company	26	103	103
Trade receivables	18	1,103	1,458
Other receivables, deposits and prepayments		2,324	1,153
Pledged bank deposits		8,331	1,346
Cash and bank balances		4,201	14,064
		<u>18,280</u>	<u>18,999</u>
Current liabilities			
Amount due to related companies	26	384	384
Trade payables	19	198	129
Trust receipts		809	–
Other payables		4,911	4,170
Current portion of borrowings	20	4,394	7,620
		<u>10,696</u>	<u>12,303</u>
Net current assets		<u>7,584</u>	<u>6,696</u>
Total assets less current liabilities		<u>33,893</u>	<u>36,131</u>

Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 (Restated) HK\$'000
Capital and reserves			
Share capital	21	14,461	14,461
Reserves		14,581	19,970
		<u>29,042</u>	<u>34,431</u>
Minority interest			
		<u>–</u>	<u>–</u>
Non-current liabilities			
Deferred tax liabilities		893	942
Borrowings	20	3,958	758
		<u>4,851</u>	<u>1,700</u>
		<u>33,893</u>	<u>36,131</u>

The financial statements on pages 30 to 59 were approved and authorised for issue by the Board of Directors on 25 March 2004 and are signed on its behalf by:



Lee Siu Fong
Director

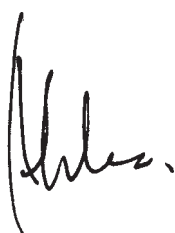


Leelalertsuphakun Wanee
Director

Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Intangible assets	15	3,840	3,840
Interests in subsidiaries	16	34,920	29,435
		<u>38,760</u>	<u>33,275</u>
Current assets			
Other receivables, deposits and prepayments		87	216
Pledged bank deposits		1,000	–
Cash and bank balances		3,211	13,181
		<u>4,298</u>	<u>13,397</u>
Current liabilities			
Other payables		463	224
		<u>463</u>	<u>224</u>
Net current assets		<u>3,835</u>	<u>13,173</u>
Total assets less current liabilities		<u>42,595</u>	<u>46,448</u>
Capital and reserves			
Share capital	21	14,461	14,461
Reserves	22	28,134	31,987
		<u>42,595</u>	<u>46,448</u>



Lee Siu Fong
Director



Leelalertsuphakun Wanee
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	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 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 (restated)	-	-	-	3,921	-	-	3,921
Exchange rate adjustment not recognised in consolidated income statement (restated)	-	-	-	-	27	-	27
Net loss for the year (restated)	-	-	-	-	-	(3,728)	(3,728)
At 31 December 2002, as restated	<u>14,461</u>	<u>24,887</u>	<u>9,200</u>	<u>3,921</u>	<u>12</u>	<u>(18,050)</u>	<u>34,431</u>
At 1 January 2003	14,461	24,887	9,200	4,613	1	(17,789)	35,373
Adjustment on adoption of SSAP12 (Revised)	-	-	-	(692)	11	(261)	(942)
At 1 January 2003, as restated	<u>14,461</u>	<u>24,887</u>	<u>9,200</u>	<u>3,921</u>	<u>12</u>	<u>(18,050)</u>	<u>34,431</u>
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	-	(26)	-	(26)
Net loss for the year	-	-	-	-	-	(5,363)	(5,363)
At 31 December 2003	<u>14,461</u>	<u>24,887</u>	<u>9,200</u>	<u>3,921</u>	<u>(14)</u>	<u>(23,413)</u>	<u>29,042</u>

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(5,419)	(5,381)
Adjustments for:		
Depreciation of property, plant and equipment	1,502	1,405
Interest expenses	521	590
Interest income	(143)	(103)
Amortisation of intangible assets	546	547
Loss on disposal of property, plant & equipment	–	2
Operating cash flow before movements in working capital	(2,993)	(2,940)
(Increase) decrease in inventories	(1,343)	50
Decrease in trade receivables	355	977
Increase in other receivables, deposits and prepayment	(1,171)	(615)
Increase (decrease) in trade payables	69	(185)
Increase in trust receipts	809	–
Increase in other payables	741	357
Cash used in operations	(3,533)	(2,356)
Interest paid	(444)	(475)
NET CASH USED IN OPERATING ACTIVITIES	(3,977)	(2,831)
INVESTING ACTIVITIES		
Interest received	143	103
Decrease (increase) in bank deposits with maturity more than three months	3,002	(3,002)
Purchase of property, plant and equipment	(1,163)	(64)
Additions of deferred development cost	(781)	(862)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	1,201	(3,825)

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
FINANCING ACTIVITIES		
Repayment of loans	(2,625)	(1,076)
Proceeds from share issue	–	32,200
Repayment to a related company	–	(1,240)
Advance from a director and an ex-director of subsidiary	–	422
New loan raised	2,598	–
Payment of shares issuance expenditures	–	(8,892)
	<hr/>	<hr/>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(27)	21,414
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,803)	14,758
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	15,410	296
Effect of foreign exchange rate changes	(75)	356
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12,532	15,410
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,201	14,064
Pledged bank deposits	8,331	4,348
Less: Bank deposits with maturity more than three months	–	(3,002)
	<hr/>	<hr/>
	12,532	15,410
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is a public limited company in the Cayman Islands and its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants (the "HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP12 (Revised)	Income taxes
SSAP35	Government grant

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2002 have not been changed as no cumulative effect of the change in policy on the results for the periods prior to 2002. The balance on the Group's properties revaluation reserve at 1 January 2003 has been reduced by HK\$692,000, representing the deferred tax liability after minority interest recognised in respect of the revaluation surplus on the Group's properties at the date. The effect of the change is an increased credit to income taxes in the current year of HK\$56,000 (2002: HK\$32,000).

Notes to the Financial Statements

For the year ended 31 December 2003

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING PRACTICE *(continued)*

In the current year, the Group has adopted SSAP35 "Government grants". In previous periods, government grants were credited directly to equity. In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the accounting provision of SSAP 35 only to grants or portions becoming receivable or repayable after the adoption of the Standard.

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.

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 deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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
Leasehold improvement	5 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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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 when the asset is available for use.

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

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that is probable the taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

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.

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.

Government grants

Government grants are recognised as income over the period necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER

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

5. SEGMENTAL INFORMATION

Business segments

The following table presents turnover, results and certain asset, liability and expenditure information for the Group's business segments.

	Proprietary products		License-in products		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment turnover	17,421	11,644	1,077	–	18,498	11,644
Segment results	823	(4,785)	(146)	–	677	(4,785)
Interest income					141	–
Unallocated expenses					(5,644)	–
Loss from operations					(4,826)	(4,785)
Finance costs					(593)	(596)
Loss before taxation					(5,419)	(5,381)
Taxation					56	32
Loss before minority interests					(5,363)	(5,349)
Segment assets	24,321	48,434	12,131	–	36,452	48,434
Unallocated assets					8,137	–
Total assets					44,589	48,434
Segment liabilities	12,807	14,003	2,277	–	15,084	14,003
Unallocated liabilities					463	–
Total liabilities					15,547	14,003
Other segment information:						
Capital additions	923	64	240	–	1,163	64
Depreciation and amortisation	1,988	1,952	60	–	2,048	1,952
Allowance for bad and doubtful debts	(400)	(89)	–	–	(400)	(89)

Notes to the Financial Statements

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION (continued)

Geographical segments

During the years ended 31 December 2003 and 2002, 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	24,321	48,434	20,268	–	44,589	48,434
Segment liabilities	12,807	14,003	2,740	–	15,547	14,003

6. OTHER REVENUE

	The Group	
	2003 HK\$'000	2002 HK\$'000
Other income	571	113
Interest income on bank deposits	143	103
	<u>714</u>	<u>216</u>

Notes to the Financial Statements

For the year ended 31 December 2003

7. LOSS FROM OPERATIONS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,502	1,405
Amortisation of intangible assets	546	547
	<hr/>	<hr/>
Total depreciation and amortisation	2,048	1,952
	<hr/> <hr/>	<hr/> <hr/>
Auditors' remuneration	431	446
Staff costs	4,783	3,848
Research and development costs	241	57
Operating lease payments in respect of rented premises	935	738
Loss on disposal of property, plant & equipment	–	2
Bad debts written off	484	212
Allowance for bad and doubtful debts written back	(401)	(89)
Stock written back	–	(12)
	<hr/> <hr/>	<hr/> <hr/>

8. FINANCE COSTS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five year	492	561
Amount due to a related company	29	29
	<hr/>	<hr/>
Bank charges	521	590
	72	6
	<hr/>	<hr/>
	593	596
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

9. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive directors	–	–
Independent non-executive directors	100	96
Other emoluments of executive directors:		
Salaries and other benefits	2,473	1,295
Contributions to retirement benefits schemes	37	24
	<u>2,610</u>	<u>1,415</u>
Total emoluments	<u><u>2,610</u></u>	<u><u>1,415</u></u>

The aggregate emoluments of each of the directors during the year were within the emoluments band ranging from HK\$ nil to HK\$1,000,000.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2002: three) were directors of the Company whose emoluments are included in the disclosures in note (9) above. The emoluments of the remaining one (2002: two) individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	477	1,114
Contributions to retirement benefits schemes	12	18
	<u>489</u>	<u>1,132</u>
	<u><u>489</u></u>	<u><u>1,132</u></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.

Notes to the Financial Statements

For the year ended 31 December 2003

11. TAXATION

	The Group	
	2003 HK\$'000	2002 HK\$'000
Current tax		
Hong Kong	–	–
The PRC	–	–
	<hr/>	<hr/>
	–	–
Deferred tax		
Credit of current year	56	32
	<hr/>	<hr/>
Taxation attributable to the Group	<u>56</u>	<u>32</u>

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

Taxes arising in other jurisdictions of the PRC are calculated at the rates of tax prevailing in the PRC.

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

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	<u>(5,419)</u>	<u>(5,381)</u>
Tax at applicable rate	(920)	(821)
Tax effect of non-deductible expenses	325	539
Tax effect of non-taxable revenues	(544)	(173)
Tax effect on temporary differences not recognised	(41)	(24)
Tax effect of tax losses not recognised	920	389
Utilisation of tax losses previously not recognised	204	58
	<hr/>	<hr/>
Tax credit for the year	<u>(56)</u>	<u>(32)</u>

Notes to the Financial Statements

For the year ended 31 December 2003

11. TAXATION (continued)

At the balance sheet date, the Group has unused estimated tax losses of HK\$9.70 million (2002: HK\$5.70 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

12. DIVIDENDS

No dividend was paid or proposed during 2003, nor has any dividend been proposed since the balance sheet date (2002: HK\$ Nil).

13. LOSS PER SHARE

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

	The Group	
	2003	2002 (Restated)
Loss:		
Net loss for the year for the purposes of basic and diluted loss per share	<u>HK\$5,363,000</u>	<u>HK\$3,728,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	289,225,000	244,658,562
Effect of dilutive potential ordinary shares: Options	<u>1,216,216</u>	<u>1,500,000</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>290,441,216</u>	<u>246,158,562</u>

Notes to the Financial Statements

For the year ended 31 December 2003

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvement	Plant and machinery	Office and laboratory equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group					
COST OR VALUATION					
At 1 January 2003	12,802	178	5,493	1,996	20,469
Exchange rate adjustments	(17)	–	(7)	(2)	(26)
Additions	–	72	866	225	1,163
At 31 December 2003	<u>12,785</u>	<u>250</u>	<u>6,352</u>	<u>2,219</u>	<u>21,606</u>
Comprising:					
At cost	–	250	6,352	2,219	8,821
At valuation	<u>12,785</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>12,785</u>
	<u>12,785</u>	<u>250</u>	<u>6,352</u>	<u>2,219</u>	<u>21,606</u>
DEPRECIATION AND IMPAIRMENT					
At 1 January 2003	1,116	44	2,287	1,539	4,986
Exchange rate adjustments	(1)	–	(3)	(2)	(6)
Charge for the year	544	40	621	297	1,502
At 31 December 2003	<u>1,659</u>	<u>84</u>	<u>2,905</u>	<u>1,834</u>	<u>6,482</u>
NET BOOK VALUES					
At 31 December 2003	<u><u>11,126</u></u>	<u><u>166</u></u>	<u><u>3,447</u></u>	<u><u>385</u></u>	<u><u>15,124</u></u>
At 31 December 2002	<u><u>11,686</u></u>	<u><u>134</u></u>	<u><u>3,206</u></u>	<u><u>457</u></u>	<u><u>15,483</u></u>

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

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\$5.20 million (2002: HK\$5.40 million).

The Group has pledged land and buildings having a net book value of approximately HK\$11.13 million (2002: HK\$11.69 million) to secure general banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31 December 2003

15. INTANGIBLE ASSETS

	Development cost HK\$'000
The Group	
COST	
At 1 January 2003	11,771
Exchange rate adjustments	(9)
Additions	<u>781</u>
At 31 December 2003	<u>12,543</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	821
Exchange rate adjustments	(1)
Charge for the year	<u>546</u>
At 31 December 2003	<u>1,366</u>
NET BOOK VALUES	
At 31 December 2003	<u><u>11,177</u></u>
At 31 December 2002	<u><u>10,950</u></u>
The Company	
COST	
At 1 January 2003 and 31 December 2003	<u><u>3,840</u></u>

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

Notes to the Financial Statements

For the year ended 31 December 2003

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	34,919	29,434
	<u>34,920</u>	<u>29,435</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.

Details of the Company's principal subsidiaries as at 31 December 2003 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 sales of pharmaceutical products
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
Lee's Pharmaceutical (Asia) Limited	HK\$2	–	100%	Hong Kong	Sale of pharmaceutical products
Lee's Diagnostic International Limited	HK\$1	–	100%	The British Virgin Islands	Not yet commenced business

Notes to the Financial Statements

For the year ended 31 December 2003

17. INVENTORIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	379	194
Work-in-progress	777	422
Finished goods	1,062	259
	2,218	875
	2,218	875

Included above are raw materials which are carried at net realisable value of HK\$Nil (2002: Nil) 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 dates.

	The Group	
	2003 HK\$'000	2002 HK\$'000
1 – 90 days	785	888
91 – 180 days	146	465
181 – 365 days	343	210
Over 365 days and under 3 years	34	501
	1,308	2,064
Less: Allowance for bad and doubtful debts	(205)	(606)
	1,103	1,458

Notes to the Financial Statements

For the year ended 31 December 2003

19. TRADE PAYABLES

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
1 – 90 days	149	67
91 – 180 days	1	–
181 – 365 days	21	–
Over 365 days	27	62
	<u>198</u>	<u>129</u>

20. BORROWINGS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans, secured by:		
The Group's land and buildings	3,623	2,452
Company's guarantee and pledged deposits	3,363	–
Other loans, secured by:		
The Group's land and buildings	1,366	5,926
	<u>8,352</u>	<u>8,378</u>
Less: Amounts shown under current liabilities	4,394	7,620
	<u>3,958</u>	<u>758</u>

Notes to the Financial Statements

For the year ended 31 December 2003

20. BORROWINGS (continued)

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Repayable:		
Within one year	4,394	7,620
In more than one year but not exceeding two years	3,958	427
In more than two years but not exceeding five years	—	331
	<hr/>	<hr/>
	8,352	8,378
Less: Amounts due within one year classified as current liabilities	4,394	7,620
	<hr/>	<hr/>
	<u>3,958</u>	<u>758</u>

21. SHARE CAPITAL

	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
Authorised:		
At 1 January 2003 and at 31 December 2003	<u>500,000,000</u>	<u>25,000</u>

Notes to the Financial Statements

For the year ended 31 December 2003

21. SHARE CAPITAL (continued)

Issued and fully paid or credited as fully paid:

	Number of ordinary shares of HK\$0.05 each		Amount	
	2003	2002	2003 HK\$'000	2002 HK\$'000
At 1 January	289,225,000	1	14,461	–
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	–	184,000,000	–	9,200
Issue of Shares to Zengen Inc. as consideration for acquisition of Intangible asset	–	9,599,999	–	480
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	–	11,415,625	–	571
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	–	2,334,375	–	116
Issue of Shares to Huby Technology Limited for cash	–	6,875,000	–	344
Issue of new Shares to public	–	75,000,000	–	3,750
At 31 December	<u>289,225,000</u>	<u>289,225,000</u>	<u>14,461</u>	<u>14,461</u>

Notes to the Financial Statements

For the year ended 31 December 2003

22. 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)
	<u>24,887</u>	<u>9,200</u>	<u>(2,100)</u>	<u>31,987</u>
At 31 December 2002	<u>24,887</u>	<u>9,200</u>	<u>(2,100)</u>	<u>31,987</u>
At 1 January 2003	24,887	9,200	(2,100)	31,987
Net loss for the year	–	–	(3,853)	(3,853)
	<u>24,887</u>	<u>9,200</u>	<u>(5,953)</u>	<u>28,134</u>
At 31 December 2003	<u>24,887</u>	<u>9,200</u>	<u>(5,953)</u>	<u>28,134</u>

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 34.

The Company's reserves available for distribution to shareholders as at 31 December 2003 was HK\$28.13 million (2002: HK\$ 31.99 million).

Notes to the Financial Statements

For the year ended 31 December 2003

22. RESERVES (continued)

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.

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.

23. COMMITMENTS

	2003 HK\$'000	2002 HK\$'000
(a) Capital commitments in respect of acquisition of property, plant and equipment		
Contracted amount	–	160
Less: Deposit paid	–	(48)
	<u>–</u>	<u>112</u>
	<u>–</u>	<u>112</u>
(b) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	759	597
In more than one year but not exceeding five years	834	123
	<u>1,593</u>	<u>720</u>
	<u>1,593</u>	<u>720</u>

Notes to the Financial Statements

For the year ended 31 December 2003

24. SHARE OPTIONS SCHEME

At 31 December 2003, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Date of grant	Number of shares under options	Exercise price per share	Exercise period
26/06/2002	1,000,000	HK\$0.280	26/06/2004 to 25/06/2012
26/06/2002	1,000,000	HK\$0.280	26/06/2005 to 25/06/2012
13/01/2003	3,929,000	HK\$0.405	13/07/2003 to 12/01/2013

25. PLEDGED OF ASSETS

At the balance sheet date, the Group pledged land and buildings with an aggregate amount of HK\$11.13 million (2002: HK\$11.69 million) and fixed deposits of HK\$8.33 million (2002: HK\$4.35 million) to banks and other institutions to secure general banking facilities granted to the Group.

26. RELATED PARTIES TRANSACTIONS AND BALANCES

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

	THE GROUP					
	Interest payable		Amounts due from a related company		Amounts due to related companies	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
University of Science and Technology of China Biotechnology Company	-	-	103	103	-	-
科大技術實業總公司	-	-	-	-	12	12
University of Science and Technology of China ("USTC")	29	29	-	-	372	372

Notes to the Financial Statements

For the year ended 31 December 2003

26. 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 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.

27. 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% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The total cost charged to income of HK\$91,000 (2002: HK\$70,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2003, contributions of HK\$28,000 (2002: HK\$16,000) due in respect of the reporting period had not been paid over to the schemes.

Financial Summary

The following is a summary of the published consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 below:

RESULTS

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	18,498	11,644	10,346	6,852	6,253
Cost of sales	(5,134)	(3,200)	(2,466)	(1,938)	(2,425)
Gross profit	13,364	8,444	7,880	4,914	3,828
Other revenue	714	216	737	356	201
Selling and distribution expenses	(6,850)	(5,030)	(5,383)	(4,839)	(4,980)
Administrative expenses	(12,054)	(8,415)	(5,232)	(5,635)	(5,456)
Loss from operations	(4,826)	(4,785)	(1,998)	(5,204)	(6,407)
Gain on disposal of technology of a developing product	–	–	1,396	–	–
Finance costs	(593)	(596)	(715)	(647)	(636)
Loss before taxation	(5,419)	(5,381)	(1,317)	(5,851)	(7,043)
Taxation	56	32	–	–	–
Loss before minority interest	(5,363)	(5,349)	(1,317)	(5,851)	(7,043)

Financial Summary

ASSETS AND LIABILITIES

	31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Non-current assets	26,309	29,435	17,440	16,431	17,375
Current assets	18,280	18,999	5,699	6,257	9,583
Current liabilities	10,696	12,303	8,360	14,845	11,203
Net current assets (liabilities)	7,584	6,696	(2,661)	(8,588)	(1,620)
Non-current liabilities	4,851	1,700	10,716	14,275	16,310
Net assets	29,042	34,431	4,063	(6,432)	(555)

Notes:

1. The consolidated results of the Group for the three years ended 31 December 2001 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for the three years ended 31 December 2001 have been extracted from the Prospectus. The consolidated results of the Group for the years ended 31 December 2002 and 2003 are as set out on page 30 of the audited financial statements.
2. The consolidated balance sheet as at 31 December 1999, 2000 and 2001 have been extracted from the Prospectus prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated balance sheet as at 31 December 2002 and 2003 are as set out on pages 31 and 32 of the audited financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the "Meeting") of Lee's Pharmaceutical Holdings Limited ("the Company") will be held at Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong on Tuesday, 18 May 2004 at 4:00 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 2003.
2. To re-elect the retiring directors and to authorize the board of directors (the "Board") to fix the directors' remuneration.
3. To re-appoint auditors and to authorize the Board to fix their remuneration.

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 4A(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;

Notice of Annual General Meeting

- (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 4A(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:
 - (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 recognized 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 Articles of Association 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 Articles of Association 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 4B(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 recognized 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 4B(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 4B(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 Articles of Association 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.”
5. To consider, and if thought fit, pass with or without modifications, the following resolution as a Special Resolution:

“THAT the Articles of Association of the Company be amended as follows:

- (1) By deleting the definition of “Associates” in Article 103(f) and substituting thereof the following new definition of “Associates” in the Interpretation of the Articles of Association:

“Associates

“Associates” means, in relation to any Director:

- (i) his spouse and any of his or his spouse’s children or step-children, natural or adopted, under the age of 18 (“family interests”);
- (ii) the trustees, acting in their capacity as such trustees, of any trust of which he or any of his family interests is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object and any company (“trustee-controlled company”) in the equity capital of which the trustees, acting in their capacity as such trustees, are directly or indirectly interested so as to exercise or control the exercise of 30 per cent. (or such other amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the Board and any other company which is its subsidiary (together, the “trustee interests”);

Notice of Annual General Meeting

- (iii) a holding company of a trustee-controlled company or subsidiary of any such holding company;
 - (iv) any company in the equity capital of which he, his family interests, any of the trustees referred to in (ii) above, acting in their capacity as such trustees, and/or any trustee interests taken together are directly or indirectly interested (other than through their respective interests in the capital of the Company) so as to exercise or control the exercise of 30 per cent. (or such other amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the Board and any other company which is its subsidiary or holding company or a fellow subsidiary of any such holding company; and
 - (v) any other persons who would be deemed as an "Associate" of the Director under the Listing Rules;"
- (2) By replacing the definition of "recognised clearing house" as set out in Article 2 of the Articles of Association with the following new definition:
- | | |
|-----------------------------|---|
| "Recognised clearing house" | "recognised clearing house" shall have the meaning ascribed thereto in Part 1 of Schedule 1 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any amendments thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;" |
|-----------------------------|---|
- (3) By deleting the definition "subsidiary and holding company" as set out in Article 2 and replacing it with the following:
- | | |
|----------------------------------|---|
| "subsidiary and holding company" | "subsidiary" and "holding company" shall have the same meaning attributed to such terms under the Listing Rules;" |
|----------------------------------|---|

Notice of Annual General Meeting

- (4) By deleting Article 76 and replacing it with the following:

“76. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required by the Listing Rules. A poll may be demanded by:

- (a) The Chairman of the meeting; or
- (b) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.”

- (5) By re-numbering Article 81 as Article 81(a) and adding the following as the new Article 81(b) immediately after Article 81(a):

“81 (b) Where any member is, under the Listing Rules, required to abstain from voting for or against any particular resolution or restricted to voting for or against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”

Notice of Annual General Meeting

(6) By deleting Article 103(c)(i)-(v) and replacing them with the following:

“103 (c) A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he or any of his Associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but his prohibition shall not apply to any of the following matters, namely:

(i) the giving of any security or indemnity either:

(aa) to the Director or any of his Associates in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his Associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his Associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iii) any proposal concerning any other company in which the Director or any of his Associates is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director is beneficially interested in the shares of that company, provided that the Director and any of his Associates are not in aggregate, beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his Associates is derived) or of the voting rights;

Notice of Annual General Meeting

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his Associates may benefit;
 - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their Associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his Associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
 - (v) any contract or arrangement in which the Director or any of his Associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.”
- (7) By deleting the words “(as defined in Article 103(f) above)” in Article 108(c)(i);

Notice of Annual General Meeting

- (8) By deleting Article 116 and replacing it with the following:

“116. No person other than a retiring Director shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless, during the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.”

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

Hong Kong, 26 March 2004

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, 14 May 2004 to Tuesday, 18 May 2004, 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 at Room 1901-5 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Thursday, 13 May 2004.
- (4) A circular containing further details regarding Resolution no. 4 and 5 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be dispatched to shareholders together with 2003 Annual Report.