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)

(Stock Code: 8221)

06 ANNUAL REPORT

* 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.

CONTENTS

CORPORATE INFORMATION

GEM STOCK CODE
8221

BOARD OF DIRECTORS
Executive Directors
Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee
(Managing Director)
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Director
Dr. Mauro Bove

Independent Non-executive Directors
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPLIANCE OFFICER
Ms. Lee Siu Fong

COMPANY SECRETARY & QUALIFIED ACCOUNTANT
Miss Luen Yee Ha, Susanne

PLACE OF BUSINESS IN HONG KONG
Unit 110-111, Bio-Informatics Centre,
No. 2 Science Park West Avenue,
Hong Kong Science Park, Shatin,
Hong Kong

REGISTERED OFFICE
P.O. Box 309 GT, Ugland House
South Church Street
Grand Cayman, Cayman Islands

COMPANY WEBSITE
www.leespharm.com

AUDIT COMMITTEE
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

AUTHORIZED REPRESENTATIVE
Ms. Lee Siu Fong
Ms. Leelalertsuphakun Wanee

AUDITORS
HLM & Co.,
Certified Public Accountants, Hong Kong

LEGAL ADVISERS
Arculli Fong & Ng (Hong Kong law)
Beijing Wuhuan Law Firm (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor
Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a research-driven and market-oriented biopharmaceutical group focused on the market of the People's Republic of China (the "PRC" or "China"). Through its operating wholly owned subsidiary in the PRC, Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. The mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products that combat diseases and improve health and quality of living.

The Group carries out its sales and distribution activities in Hong Kong and China through branch offices in Guangzhou, Shanghai and Beijing with network covering most of the provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad. The manufacturing plant of the Group is located in Hefei, Anhui Province of the PRC, comprising three GMP-complaint workshops for the production of topical gel, lyophilized powder for injection and small volume parenteral solutions.

Currently, the Group has the following products in the market:

	Country of origin	Market PRC	Market Hong Kong	Medical application
Proprietary products:				
Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		Vira-infected disease
Defibrase	PRC	✓		Cerebral ischemic stroke
Slounase®	PRC	✓		Shortening bleeding time & reducing loss of blood
License-in products:				
Carnitene®	Italy	✓		Cardiac disease
Horus®S	Italy		✓	Coronary Stent
Challenger	Italy		✓	Balloon Catheter
Hibor®	Spain		✓	Prevention of VTE & treatment of DVT

FINANCIAL HIGHLIGHTS

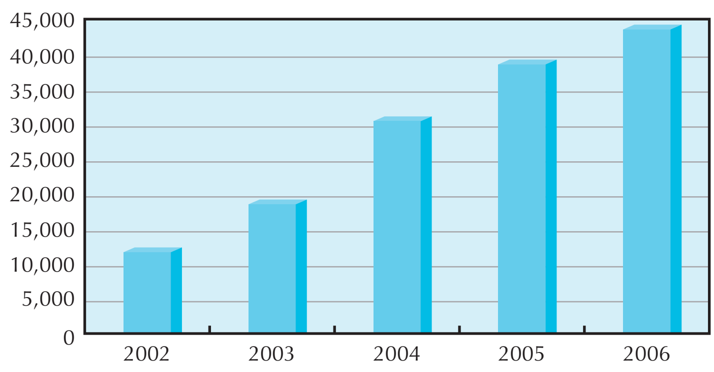
FINANCIAL HIGHLIGHTS

	Financial year ended 31 December				
	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
Turnover	43,531	38,528	30,395	18,498	11,644
Gross profit	26,671	25,312	20,014	13,364	8,444
(Loss) profit from operations	(2,677)	555	(2,864)	(4,898)	(4,754)
Current ratio	1.03	1.53	1.99	1.71	1.54

TURNOVER ANALYSIS:

	Three months ended 31 December		Twelve months ended 31 December	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Proprietary products	6,622	4,834	24,169	24,791
License-in products	5,888	4,126	19,362	13,737
	12,510	8,960	43,531	38,528

TURNOVER OF THE GROUP (HK$'000)



It is my pleasure to report to you that despite the challenge faced by the pharmaceutical industry in China in 2006, the Group has reached several important milestones in 2006 which lay solid foundation for sustained growth of the Group in 2007 and beyond.

During the year, the Group completed the expansion of its manufacturing facilities in Heifei, China. The new production line for small volume injection was inspected and certified by the China SFDA for meeting the standard of GMP. The new workshop for producing Eyprotor® (protein-free calf blood extract eye gelatin) is also ready and GMP certification is expected in mid 2007. With the expanded capacity and capability, the Group is well equipped to cope with the expected significant growth in near future. The accelerated development will be fuelled by the launch of Slounase® (Hemocoagulase) which entered the market in late 2006. It marks the fourth proprietary product developed and launched in-house by the Group, allowing further leverage of its existing sales and marketing network.

In 2006, the Group also restructured its business operation and refocus exclusively on ethical pharmaceuticals. Such effort resulted in significant increase in administrative expenses and contributed to the net loss incurred for the year 2006. Increase in investment in resources for the launch of new product also contributed to the loss of the Group.

However, the Group has seen continuing growth in revenue with a 13% increase in 2006 over same period in 2005, reaching HK$43.5 million. The growth was driven by 55% increase in the sales of Carnitene®, our license-in product. The growth momentum is expected to continue in 2007 as more products will be marketed by the Group.

With the launch of Slounase®, I am confident that the Group will see a significant growth in both revenue and profitability. Such growth will undoubtedly be sustained by the rich pipeline of the Group in the years to come.

I would like to close by thanking the board, management, and every member of staff for their ongoing dedication and hard work, and our customers, banks, suppliers and shareholders for their continuing support.

Lee Siu Fong
Chairman

Hong Kong, 23 March 2007

BUSINESS REVIEW

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

Manufacturing facility

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

Drug development

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

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

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

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

Imported Products registration

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

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

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

International Partnerships

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

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

Sales and marketing

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

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

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

FINANCIAL REVIEW

Turnover

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

Gross profit margin

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

Administrative expenses

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

Finance costs

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

Dividends

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

Liquidity and Financial Resources

As at 31 December 2006, the Group had cash and bank balances and pledged bank deposits of approximately HK$6.83 million (31 December 2005: HK$5.89 million). In terms of liquidity, the current ratio (current assets/ current liabilities) was about 1.03 times (31 December 2005: 1.53 times). As at 31 December 2006, the Group had bank and other borrowings of approximately HK$11.7 million and shareholders' funds of approximately HK$33.19 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was 15% (31 December 2005: 1.78%).

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 and development requirements in future.

Treasury Policies

The group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group may use forward contracts to hedge against foreign currency fluctuations.

Charges on Group Assets

As at 31 December 2006, leasehold land and building and machinery with an aggregate net book value of approximately HK$10.23 million (31 December 2005: HK$7.76 million) were pledged to a bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of HK$2.01 million were pledged as securities for banking facilities as at 31 December 2006 (31 December 2005: HK$2.01 million).

Contingent Liabilities

As at 31 December 2006, the Group had no contingent liabilities.

Employee Information

As at 31 December 2006, the Group had 188 employees (2005: 179 employees) working in Hong Kong and in the PRC. Total employee remuneration, including that of the Directors and mandatory provident fund contributions, for the year under review amounted to approximately HK$10.74 million (2005: HK$9.74 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.

PROSPECTS

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

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, 50

Ms. Lee Siu Fong ("Ms. Lee") 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.

Leelalertsuphakun Wanee

Managing Director & Chief Marketing Officer, 53

Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") 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.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, 44, PhD

Dr. Li Xiao Yi ("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.

NON-EXECUTIVE DIRECTOR

Mauro Bove, *52*

Dr. Mauro Bove ("Dr. Bove") joined the Group on 9 May 2005. Dr. Bove obtained his law degree at the University of Parma, Italy, in 1980. He has more than twenty five years of business and management experience within the pharmaceutical industry. He has served in a number of senior positions in business, licensing, M&A and corporate development within Sigma-Tau, one of the leading Italian pharmaceutical groups. He presently heads the corporate development department and sits on the board of directors of Sigma-Tau Finanziaria S.p.A., the holding company of Sigma-Tau group. Dr. Bove is connected with Defiante Farmaceutica Lda ("Defiante"), a substantial shareholder of the Company as Defiante is a company belonging to Sigma-Tau group. Save as disclosed above, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the GEM Listing Rules).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director & audit committee, 44, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob ("Dr. Chan") joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. Dr. Chan had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently Dr. Chan is Chief Financial Officer of a company that develops and operates an online game business in China. Dr. Chan does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Independent non-executive Director & audit committee, 45, CPA (Practising),FCCA, BBA

Mr. Lam Yat Cheong ("Mr. Lam") joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 19 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lam is also an independent non-executive director of Perfectech International Holdings Limited and Wuyi International Pharmaceutical Company Limited which are companies listed in Hong Kong. Mr. Lam does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Independent non-executive Director & audit committee, 48, PhD, MPhil, BSc

Dr. Tsim Wah Keung, Karl ("Dr. Tsim"), joined the independent Board on 20 September 2004. Dr. Tsim currently serves as Professor of Department of Biology at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. Dr. Tsim has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committee in advising the development of traditional Chinese medicine as health food products. Dr. Tsim does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

SENIOR MANAGEMENT

Wang Xian Shun

Chief engineer, 70, BSc

Professor Wang Xian Shun, 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.

Chen Yueshen

Chief operating officer, 48

Mr. Chen Yueshen, 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.

Luen Yee Ha, Susanne

Chief financial officer, company secretary & qualified accountant, FCCA, FCPA, MAIA

Miss Luen Yee Ha, Susanne joined the Group in June 2005 and is responsible for financial management, reporting and company secretarial matters. She has over fifteen years' experience in auditing, accounting and financial fields and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She also has a Master degree in International Accounting from City University of Hong Kong.

The Board is pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 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 31.

The Board does not recommend the payment of any dividend for the year ended 31 December 2006.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 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 page 70 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 22 and 25 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 23 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.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$30.68 million. This includes the Company's share premium in the amount of HK$32.5 million at 31 December 2006, 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 26.28% in aggregate for the Group's total turnover for the year (2005: 24.48%).

Purchase from the Group's five largest suppliers accounted for approximately 88.45% in aggregate for the Group's total purchases for the year (2005: 86.68%). The largest supplier of the Group accounted for approximately 65% of the Group's total purchases (2005: 60.02%).

Apart from as disclosed under the paragraph headed "Continuing Connected Transactions" below, none of the Directors, their associates (as defined in 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

Non-executive director
Mauro Bove

Independent non-executive directors:
Chan Yau Ching, Bob
Lam Yat Cheong
Tsim Wah Keung, Karl

In accordance with Article 95 and 112 of the Company's Articles of Association, Ms Leelalertsuphakun Wanee, Dr. Li Xiaoyi and Dr. Tsim Wah Keung, Karl will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

Each of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing.

Dr. Li Xiaoyi entered into a service contract with the Company for an initial term of three years commenced from 1 September 2003 and the contract has been renewed for an additional period of one year from 1 September 2006. Both parties shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, holding less than 35% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Dr. Chan Yau Ching, Bob ("Dr. Chan") has a two-year service contract with the Company from 12 October 2005.

Dr. Mauro Bove (Dr. Bove) was appointed as non-executive director on 9 May 2005. Dr. Bove has a three-year service contract with the Company commenced on 3 January 2006.

Each of Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl was appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive director for an initial term of three years.

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"), the principal terms of which are set out in the Prospectus.

Movements of the share options during the year ended 31 December 2006 were as follows:

		Number of share options				
Grantees	Date of Grant	Outstanding at 1.1.2006	Granted	Exercised/ cancelled	Lapsed	Outstanding at 31.12.2006
Directors						
Lee Siu Fong	26.06.2002	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	–	–	–	289,000
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	–	500,000	–	–	500,000
Chan Yau Ching, Bob	13.01.2003	100,000	–	–	–	100,000
	25.06.2004	300,000	–	–	–	300,000
	11.07.2005	100,000	–	–	–	100,000
Lam Yat Cheong	11.07.2005	300,000	–	–	–	300,000
Tsim Wah Keung, Karl	11.07.2005	300,000	–	–	–	300,000
Sub-total of Directors		6,379,000	500,000	–	–	6,879,000
Employees	26.06.2002	50,000	–	–	–	50,000
	13.01.2003	400,000	–	–	–	400,000
	25.06.2004	6,250,000	–	–	(300,000)	5,950,000
	11.07.2005	3,750,000	–	–	–	3,750,000
Consultant	02.06.2006	–	500,000	–	–	500,000
Sub-total of employees and consultant		10,450,000	500,000	–	(300,000)	10,650,000
Grand total		16,829,000	1,000,000	–	(300,000)	17,529,000

Notes:

1. Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
26.06.2002	(i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	0.280
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218
11.07.2005	(iii) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (iv) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(v) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (vi) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175

Saved as disclosed above, as at 31 December 2006, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2006, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO') were as follows:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	163,290,625	165,625,000	47.84
Leelalertsuphakun Wanee	Beneficial owner		1,140,000		
	Interest of corporation	(i)	163,290,625	164,430,625	47.49
Li Xiaoyi	Interest of spouse	(ii)	16,000,000	16,000,000	4.62

Notes:

(i) 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 Siu Fong and Ms. Leelalertsuphakun Wanee.

(ii) 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.

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Chan Yau Ching, Bob	Beneficial owner	500,000	500,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
Tsim Wah Keung, Karl	Beneficial owner	300,000	300,000
		6,879,000	6,879,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	165,625,000	1,600,000	167,225,000
Leelalertsuphakun Wanee	164,430,625	289,000	164,719,625
Li Xiaoyi	16,000,000	2,890,000	18,890,000
Mauro Bove	–	1,000,000	1,000,000
Chan Yau Ching, Bob	–	500,000	500,000
Lam Yat Cheong	–	300,000	300,000
Tsim Wah Keung, Karl	–	300,000	300,000

2. *Short positions*

No short positions of Directors and chief executive in the Shares or underlying Shares 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 5.46 of the GEM Listng Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the year ended 31 December 2006 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 2006, the following persons/companies, other than a Director or chief executive of the Company, who had interests 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:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	**Capacity**	*Notes*	**Number of Shares**	**% of issued share capital**
Huby Technology Limited	Beneficial owner		155,290,625	44.85
Defiante Farmaceutica, Lda	Beneficial owner		57,000,000	16.46
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	4.62
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	4.62

(b) Underlying shares

Name	**Capacity and nature**	*Notes*	**Nature of underlying Shares**	**Number of underlying Shares**
Defiante Farmaceutica, Lda	Beneficial owner		Unlisted warrants	69,245,000
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	2,890,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	155,290,625	–	155,290,625
Defiante Farmaceutica, Lda	57,000,000	69,245,000	126,245,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	16,000,000	2,890,000	18,890,000

Notes:

(i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.

(ii) Dr. Li Xiaoyi, husband of Ms. Lue, has been granted share options 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. *Short positions*

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 31 December 2006, so far as is known to the Directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

CONTINUING CONNECTED TRANSACTIONS

Defiante Farmaceutica, Lda is a substantial shareholder of the Company and also a member of Sigma-Tau Group. The supply of pharmaceutical products by Sigma-Tau Group to the Company constituted continuing connected transactions under the GEM Listing Rules.

The continuing connected transactions were approved by independent shareholders where the Cap of sales of *Carnitene®* to the Company by the Sigma-Tau Group for the year ended 31 December 2006 would not exceed HK$16,376,100.

For the year ended 31 December 2006, sales of *Carnitene®* to the Company by the Sigma-Tau Group amounted to HK$8,879,719.

The continuing connected transactions have been reviewed by the independent non-executive directors and they have confirmed that the transactions:

a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.

b. are conducted on normal commercial terms.

c. are entered into in accordance with the terms of Distribution Agreement that are fair and reasonable and in the interests of Shareholders as a whole.

Save as disclosed above, there were no other transactions requiring disclosure of connected transactions in accordance with the requirements of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the year ended 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors, a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules during the year. Based on such confirmation, the Company considers Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl to be independent.

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.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2006.

AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

The consolidated 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, 23 March 2007

CORPORATE GOVERNANCE PRACTICES

The Group has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2006, with deviations from provision B.1 of the Code.

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

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2006, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealing throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

The Board is responsible for decision in relation to the overall strategic development of the Group's business. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the executive directors and management.

During the financial year ended 31 December 2006, 7 full board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong (Chairperson)	7/7	100%
Leelalertsuphakun Wanee	4/7	57%
Li Xiaoyi	6/7	86%
Non-executive Director		
Mauro Bove	0/5	0%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	5/7	71%
Lam Yat Cheong	7/7	100%
Tsim Wah Keung, Karl	5/7	71%

The Chairman and Chief Executive Officer of the Company are Ms. Lee Siu Fong and Dr. Li Xiaoyi respectively. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

NON-EXECUTIVE DIRECTORS

All non-executive directors are appointed for a specific term, subject to retirement by rotation at least once every three years.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence and experience that they can contribute to the Company.

REMUNERATION OF DIRECTORS

In accordance with the Articles of Association of the Company, the remuneration of directors and managers are determined by the board of directors after giving due consideration to the compensation levels for comparable positions in the market. Accordingly, the Board considers that the Company needs not set up a remuneration committee to determine the remuneration of Directors and senior management.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis.

The company set up an audit committee on 26 June 2002 with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (Chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

In the financial year ended 31 December 2006, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditors and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendants	Number of audit committee meetings attended/Total	Attendance percentage
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	3/4	75%

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal systems for the Company to safeguard its assets and shareholders' interests.

The Board reviews the internal control system of the Group annually and will take any necessary and appropriate action to maintain adequate internal control system to safeguard Company's equity. The effectiveness of the internal control system was discussed on annual basis with the Audit Committee.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, all the remuneration paid to the Company's auditors HLM & Co. of amount HK$470,000 was audit services fee.

恒健會計師行
HLM & Co.
Certified Public Accountants

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TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 69 which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

HLM & Co.
Certified Public Accountants

Hong Kong, 23 March 2007

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	6	43,531	38,528
Cost of sales		(16,860)	(13,216)
Gross profit		26,671	25,312
Other revenue	7	922	1,770
Selling and distribution expenses		(14,420)	(14,614)
Research and development expenses		(1,113)	(878)
Administrative expenses		(14,737)	(11,035)
(Loss) profit from operations	8	(2,677)	555
Finance costs	9	(704)	(446)
(Loss) profit before taxation		(3,381)	109
Taxation	12	(88)	44
Net (loss) profit attributable to shareholders		(3,469)	153
		HK cents	HK cents
(Loss) earnings per Share			
Basic	13	(1.00)	0.04
Diluted	13	N/A	N/A

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current Assets			
Property, plant and equipment	14	14,484	11,806
Intangible assets	15	14,225	13,832
Lease premium for land	16	1,162	1,142
Goodwill		3,900	3,900
		33,771	30,680
Current Assets			
Lease premium for land		29	28
Inventories	18	4,075	3,751
Trade receivables	19	4,161	3,716
Other receivables, deposits and prepayments		3,757	2,777
Pledged bank deposits		2,012	2,014
Cash and bank balances		4,815	3,876
		18,849	16,162
Current Liabilities			
Trade payables	20	666	509
Other payables		6,319	3,527
Bank overdraft	21	819	–
Short term borrowings	21	10,326	6,526
Tax payable		134	–
		18,264	10,562
Net Current Assets		585	5,600
Total Assets less Current Liabilities		34,356	36,280

AT 31 DECEMBER 2006

	Notes	2006 HK$'000	2005 HK$'000
Capital and Reserves			
Share capital	22	17,311	17,311
Reserves		15,878	18,349
Equity attributable to shareholders of the Company		33,189	35,660
Non-current Liabilities			
Deferred tax liabilities		599	620
Long-term borrowings	21	568	–
		1,167	620
		34,356	36,280

The financial statements on pages 31 to 69 were approved and authorised for issue by the Board of Directors on 23 March 2007 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

BALANCE SHEET

AT 31 DECEMBER 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current Assets			
Intangible assets	15	3,840	3,840
Interests in subsidiaries	17	44,298	44,208
		48,138	48,048
Current Assets			
Other receivables, deposits and prepayments		82	42
Pledged bank deposits		–	1,000
Cash and bank balances		101	126
		183	1,168
Current Liabilities			
Other payables		332	240
Net Current (Liabilities) Assets		(149)	928
Total Assets less Current Liabilities		47,989	48,976
Capital and Reserves			
Share capital	22	17,311	17,311
Reserves	23	30,678	31,665
		47,989	48,976

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Revaluation reserve HK$'000	Share-based compensation reserve HK$'000	Exchange reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	17,311	32,496	9,200	3,106	443	183	(27,079)	35,660
Employee share option benefits	–	–	–	–	223	–	–	223
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	131	–	644	–	775
Net loss for the year	–	–	–	–	–	–	(3,469)	(3,469)
At 31 December 2006	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
At 1 January 2005	17,311	33,227	9,200	3,028	255	(62)	(27,232)	35,727
Warrant issue net expenses	–	(731)	–	–	–	–	–	(731)
Employee share option benefits	–	–	–	–	188	–	–	188
Exchange rate adjustment not recognized in consolidated income statement	–	–	–	78	–	245	–	323
Net profit for the year	–	–	–	–	–	–	153	153
At 31 December 2005	17,311	32,496	9,200	3,106	443	183	(27,079)	35,660

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 HK$'000	2005 HK$'000
Operating activities		
(Loss) profit before taxation	(3,381)	109
Adjustments for:		
Depreciation of property, plant and equipment	1,749	1,493
Interest expenses	560	446
Interest income	(131)	(91)
Amortisation of intangible assets	634	558
Amortisation of leasehold premium for land	27	28
Bad debt written off	2,048	27
Exchange difference	76	(70)
Share based payments	223	188
Provision for slowing moving stocks	434	–
Stock written off	95	–
Written back of account payable	–	(1,178)
Allowance for bad and doubtful debts written back	(48)	(21)
Loss on disposal of property, plant & equipment	71	11
Operating cash flow before movements in working capital	2,357	1,500
(Increase) decrease in inventories	(792)	147
(Increase) decrease in trade receivables	(1,472)	245
(Increase) decrease in other receivables, deposits and prepayments	(1,871)	382
Increases in trade payables	141	27
Decrease in trust receipts	–	(1,607)
Increase (decrease) in other payables	2,709	(139)
Cash from operations	1,072	555
Interest paid	(560)	(449)
Net cash from operating activities	512	106

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 HK$'000	2005 HK$'000
Investing activities		
Interest received	131	91
Purchase of plant and equipment	(4,012)	(1,243)
Additions of deferred development cost	(682)	(2,358)
Acquisition of additional interest in a subsidiary	–	(3,900)
Warrant issuance expense	–	(731)
Net cash used in investing activities	(4,563)	(8,141)
Financing activities		
New loan raised	11,786	4,798
Repayment of loans	(7,692)	(3,234)
Net cash from financing activities	4,094	1,564
Net increase (decrease) in cash and cash equivalents	43	(6,471)
Cash and cash equivalents at 1 January	5,890	12,539
Effect of foreign exchanges rate changes	76	(178)
Cash and cash equivalents at 31 December	6,009	5,890
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	4,815	3,876
Pledged bank deposits	2,013	2,014
Bank overdraft	(819)	–
	6,009	5,890

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK (IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK (IFRIC)-Int 11	HKFRS2 – Group and treasury share transactions[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at fair value of the consideration received and receivables and represent amount receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of 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.

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.

Leasehold buildings are stated in the consolidated 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.

Any revaluation increase arising on revaluation of 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 consolidated 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, at the following rates per annum:

Buildings	5%
Leasehold improvement	20%
Plant and machinery	5% – 14%
Office and laboratory equipment	20% – 33%
Motor vehicle	10%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease premium for land

Lease premium for land are up-front payments to acquire long-term interests in lessee-occupied properties. The premium is stated at cost and is amortised over the period of the lease on a straight-line basis to the consolidated income statement.

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.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Operating lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

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

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 consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in currencies other than the functional currency are initially recorded at the rate of exchange prevailing on the dates of transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historial cost in a foreign currency are not re-translated.

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.

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 loss is recognised as an expense immediately.

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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

(i) *Salaries, bonuses and leave benefits*

Employee entitlements to salaries, double pay, paid annual leave and the cost to the Group of non-monetary benefits are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlement to sick leave and maternity leave are recognised when the absences occur.

(ii) *Retirement benefit*

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary.

The pension schemes covering all the Group's PRC employees are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

The cost of all these schemes is charged to the consolidated income statement for the period concerned and the assets of all these schemes are held separately from those of the Group.

Equity-settled share-based payment transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 consolidated income statement and are deducted in reporting the related expense.

4. TURNOVER

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables, bank balances, and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

A major subsidiary of the Company have foreign currency sales, which expose the Group to foreign currency risk. The Group currently may use forward contracts to hedge foreign currency risk. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

The Group is exposed to both cash flow interest rate risk and fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating interest rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

6. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

Proprietary products – manufacture and sale of self-developed pharmaceutical products

Licensed products – trading of license-in pharmaceutical products

Segment information about these businesses is presented below:

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

6. SEGMENT INFORMATION *(continued)*

Geographical segments

During the years ended 31 December 2006 and 2005, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong		Total	
	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	30,852	30,063	21,768	16,779	52,620	46,842
Segment liabilities	10,247	9,500	9,184	1,682	19,431	11,182

7. OTHER REVENUE

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Interest income on bank deposits	131	86
Development grant	97	–
Other income	694	1,684
	922	1,770

8. (LOSS) PROFIT FROM OPERATIONS

	THE GROUP	
	2006 HK$'000	2005 HK$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,749	1,493
Amortisation of intangible assets	634	558
Total depreciation and amortisation	2,383	2,051
Auditors' remuneration	470	463
Staff costs	10,745	9,743
Share based payment	223	188
Research and development costs	1,113	878
Operating lease payments in respect of rented premises	1,341	1,173
Bad debts written off	2,048	27
Allowance for bad and doubtful debts written back	(48)	(21)
Loss on disposal of plant and equipment	71	11

9. FINANCE COSTS

	THE GROUP	
	2006 HK$'000	2005 HK$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five year	560	343
Bank charges	144	103
	704	446

10. DIRECTORS' REMUNERATIONS

All Directors received emoluments during the year. The aggregate emoluments paid and payable to the Directors were as follows:

The emoluments paid or payable to each of the 7 (2005: 7) directors were as follows:

The Group

	Fees	Salaries, allowances, and other remuneration	Employer's contributions to pension schemes	2006 Total emoluments	2005 Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Lee Siu Fong	–	840	12	852	852
Leelalertsuphakun Wanee	–	840	12	852	790
Li Xiaoyi	–	1,320	12	1,332	1,212
Non-executive Director					
Mauro Bove	50	–	–	50	32
Independent non-executive Directors					
Chan Yau Ching	50	–	–	50	50
Lam Yat Cheong	50	–	–	50	50
Tsim Wah Keung	50	–	–	50	50
Total	200	3,000	36	3,236	3,036

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosures in note (10) above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	734	494
Contributions to retirement benefits schemes	24	17
	758	511

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.

12. TAXATION

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

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

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

12. TAXATION *(continued)*

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

	2006 HK$'000	2005 HK$'000
(Loss) profit before taxation	(3,381)	109
Notional tax at the rates applicable to results in regions concern	(628)	(33)
Tax effect of non-deductible expenses	74	58
Tax effect of non-taxable revenues	(18)	(277)
Tax effect on temporary differences not recognised	(116)	(28)
Tax effect of tax losses not recognised	913	468
Tax effect of PRC preferential tax allowance	(137)	–
Utilisation of tax losses previously not recognised	–	(232)
Tax charge (credit) for the year	88	(44)

At the balance sheet date, the Group has unused estimated tax losses of HK$17.9 million (2005: HK$12.5 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.

13. (LOSS) EARNINGS PER SHARE

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

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

13. (LOSS) EARNINGS PER SHARE *(continued)*

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

14. PROPERTY, PLANT AND EQUIPMENT

	Property under construction HK$'000	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor Vehicle HK$'000	Total HK$'000
The Group							
COST OR VALUATION							
At 1 January 2006	593	10,373	314	7,262	2,259	–	20,801
Transfer	(593)	593	–	–	–	–	–
Exchange rate adjustments	–	461	–	305	81	–	847
Additions	–	2,094	435	1,004	218	261	4,012
Disposals	–	–	(239)	(342)	(224)	–	(805)
At 31 December 2006	–	13,521	510	8,229	2,334	261	24,855
Comprising:							
At cost	–	–	510	8,229	2,334	261	11,334
At valuation	–	13,521	–	–	–	–	13,521
	–	13,521	510	8,229	2,334	261	24,855
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	–	2,611	203	4,286	1,895	–	8,995
Exchange rate adjustments	–	110	–	180	71	–	361
Charge for the year	–	696	74	819	143	17	1,749
Written off upon disposal	–	–	(205)	(308)	(221)	–	(734)
At 31 December 2006	–	3,417	72	4,977	1,888	17	10,371
NET BOOK VALUES							
At 31 December 2006	–	10,104	438	3,252	446	244	14,484

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Property under construction HK$'000	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Total HK$'000
The Group						
COST OR VALUATION						
At 1 January 2005	–	10,090	314	6,646	2,396	19,446
Exchange rate adjustments	–	260	–	170	46	476
Additions	593	23	–	508	119	1,243
Disposals	–	–	–	(62)	(302)	(364)
At 31 December 2005	593	10,373	314	7,262	2,259	20,801
Comprising:						
At cost	593	–	314	7,262	2,259	10,428
At valuation	–	10,373	–	–	–	10,373
	593	10,373	314	7,262	2,259	20,801
DEPRECIATION AND IMPAIRMENT						
At 1 January 2005	–	2,005	140	3,530	1,999	7,674
Exchange rate adjustments	–	52	–	90	39	181
Charge for the year	–	554	63	717	159	1,493
Written off upon disposal	–	–	–	(51)	(302)	(353)
At 31 December 2005	–	2,611	203	4,286	1,895	8,995
NET BOOK VALUES						
At 31 December 2005	593	7,762	111	2,976	364	11,806

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

If the buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$6.11 million (2005: HK$3.63 million).

The Group has pledged leasehold land and buildings with a net book value of approximately HK$9.86 million (2005: HK$7.76 million) to secure general banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Development cost HK$'000
The Group	
COST	
At 1 January 2005	13,795
Exchange rate adjustments	212
Additions	2,394
Disposal	(29)
At 31 December 2005	16,372
Exchange rate adjustments	452
Additions	682
At 31 December 2006	17,506
AMORTISATION AND IMPAIRMENT	
At 1 January 2005	1,926
Exchange rate adjustments	56
Charge for the year	558
At 31 December 2005	2,540
Exchange rate adjustments	107
Charge for the year	634
At 31 December 2006	3,281
NET BOOK VALUES	
At 31 December 2006	14,225
At 31 December 2005	13,832

15. INTANGIBLE ASSETS *(continued)*

	Development cost
	HK$'000
The Company	
COST	
At 31 December 2006 and 31 December 2005	3,840

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

16. LEASE PREMIUM FOR LAND

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Net book value at 1 January	1,170	1,168
Exchange rate adjustment	49	30
	1,219	1,198
Amortisation for the year	(28)	(28)
Net book value at 31 December	1,191	1,170
Current portion of non-current assets	(29)	(28)
Non-current portion	1,162	1,142

The leasehold land is held under medium-term lease and situated in the PRC.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	44,297	44,207
	44,298	44,208

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 2006 are set out as follows:

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held Direct	Percentage of equity interest held Indirect	Place of incorporation/ registration	Principal activities
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 trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd.	US$2,000,000	–	100%	PRC	Manufacture and sale of pharmaceutical products
Lee's Pharmaceutical (China) Limited	US$1	–	100%	The British Virgin Islands	Not yet commenced business

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Issued and fully paid share capital/ registered capital	Percentage of equity interest held Direct	Percentage of equity interest held Indirect	Place of incorporation/ registration	Principal activities
Lee's Pharmaceutical (Asia) Limited	HK$2	–	100%	Hong Kong	Trading of pharmaceutical products
Lee's Diagnostic International Limited	HK$1	–	100%	The British Virgin Islands	Not yet commenced business

18. INVENTORIES

	THE GROUP 2006 HK$'000	THE GROUP 2005 HK$'000
At Cost		
Raw materials	755	159
Work-in-progress	484	520
Finished goods	2,836	3,072
	4,075	3,751

Included above are raw materials which are carried at net realisable value of HK$Nil (2005: Nil) at the balance sheet date.

19. TRADE RECEIVABLES

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

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

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

20. TRADE PAYABLES

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

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

21. BANK OVERDRAFT AND BORROWINGS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Secured		
– Overdraft	819	–
– Bank loans	8,894	3,647
– Other loans	2,000	2,879
	11,713	6,526

The borrowings are secured by the Group's leasehold land and buildings and owned assets.

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Carrying amount of the borrowings are repayable:		
Within one year	11,145	6,526
More than one year but not exceeding two years	568	–
	11,713	6,526

22. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each		Amount	
	2006	2005	2006	2005
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning and end of the year	346,225,000	346,225,000	17,311	17,311

23. RESERVES

	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
The Company					
At 1 January 2006	32,496	9,200	443	(10,474)	31,665
Employee share option benefits	–	–	223	–	223
Net loss for the year	–	–	–	(1,210)	(1,210)
At 31 December 2006	32,496	9,200	666	(11,684)	30,678
At 1 January 2005	33,227	9,200	255	(8,970)	33,712
Warrant issue net expenses	(731)	–	–	–	(731)
Employee share option benefits	–	–	188	–	188
Net loss for the year	–	–	–	(1,504)	(1,504)
At 31 December 2005	32,496	9,200	443	(10,474)	31,665

The movements of the Group's reserve are stated in the consolidated statement of changes in equity on page 35.

The Company's reserves available for distribution to shareholders as at 31 December 2006 was HK$30.68 million (2005: HK$31.67 million).

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.

23. RESERVES *(continued)*

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

24. COMMITMENTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
(a) Capital commitments in respect of acquisition of property, plant and equipment	276	2,313

	2006	2005
	HK$'000	HK$'000
(b) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	945	631
In more than one year but not exceeding five years	1,044	101
	1,989	732

25. SHARE OPTIONS SCHEME

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and share option scheme (the "Share Option Scheme") were adopted pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002 for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

25. SHARE OPTIONS SCHEME *(continued)*

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,529,000 (2005: 16,829,000) representing 5.06% (2005: 4.86%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 10% of the shares of the Company in issue at the time of listing, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

Details of the Company's Pre-IPO Share Option Scheme are summarized as follow:

Date of grant	Outstanding at 01.01.2006	Granted/ exercised/ cancelled/lapsed during the year	Outstanding at 31.12.2006	Exercise period	Exercise price per share
Category I: Directors					
26.06.2002	1,600,000	–	1,600,000	26.06.2004-25.06.2012	HK$0.280
Category II: Employees					
26.06.2002	50,000	–	50,000	26.06.2004-25.06.2012	HK$0.280
	1,650,000	–	1,650,000		

25. SHARE OPTIONS SCHEME *(continued)*

Details of the Company's Share Option Scheme are summarized as follow:

Date of grant	Outstanding at 01.01.2006	Granted	During the year exercised/ cancelled	Lapsed	Outstanding at 31.12.2006	Exercise period	Exercise price per share
Category I: Directors							
13.01.2003	3,279,000	–	–	–	3,279,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	300,000	–	–	–	300,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	1,200,000	–	–	–	1,200,000	11.01.2006-10.07.2015	HK$0.159
02.06.2006	–	500,000	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
Category II: Employees							
13.01.2003	400,000	–	–	–	400,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	6,250,000	–	–	(300,000)	5,950,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	3,750,000	–	–	–	3,750,000	11.01.2006-10.07.2015	HK$0.159
Category III: Consultant							
02.06.2006	–	500,000	–	–	500,0000	2.12.2006-01.06.2016	HK$0.175
	15,179,000	1,000,000	–	(300,000)	15,879,000		

25. SHARE OPTIONS SCHEME *(continued)*

Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
26.06.2002	(i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	0.280
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218
11.07.2005	(iii) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (iv) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(v) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (vi) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175

25. SHARE OPTIONS SCHEME *(continued)*

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

	Outstanding at 01.01.2006	Granted	During the year exercised/ cancelled	Lapsed	Outstanding at 31.12.2006
Directors					
Lee Siu Fong	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	289,000	–	–	–	289,000
Li Xiaoyi	2,890,000	–	–	–	2,890,000
Chan Yau Ching, Bob	500,000	–	–	–	500,000
Lam Yat Cheong	300,000	–	–	–	300,000
Tsim Wah Keung, Karl	300,000	–	–	–	300,000
Mauro Bove	500,000	500,000	–	–	1,000,000
Directors' total	6,379,000	500,000	–	–	6,879,000
Consultant	–	500,000	–	–	500,000
Employees	10,450,000	–	–	(300,000)	10,150,000
Grand total	16,829,000	1,000,000	–	(300,000)	17,529,000

Total consideration received during the year from Directors and employees for taking up the options granted amounted to HK$2 (2005: HK$6).

The Group issues equity-settled share-based payments to certain employees and consultant. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

25. SHARE OPTIONS SCHEME *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 2 June 2006 was HK$150,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 90.11 per cent;
2. expected annual dividend yield of 0 per cent;
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 2016 was 4.88 per cent. which was adopted to calculate the fair value of options granted on 2 June 2006.

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.

26. PLEDGED OF ASSETS

At the balance sheet date, the Group pledged leasehold land and buildings with an aggregate amount of HK$9.86 million (2005: HK$7.76 million), machinery of HK$0.37 million (2005: HK$Nil), and fixed deposits of HK$2.01 million (2005: HK$2.01 million) to banks and other institutions to secure general banking facilities granted to the Group.

27. RELATED PARTIES TRANSACTIONS

During the year, the Group entered into the following transactions with related parties. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

Name of related parties	Notes	Nature of transactions	2006 HK$'000	2005 HK$'000
Eco-Globe Development Limited	(a)	Sales of pharmaceutical product	–	5
Cremalpina Co., Limited	(b)	Sales of other product	–	3
Sigma-Tau Group	(c)	Purchase of pharmaceutical product	8,880	6,066

Notes:

(a) The directors, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi, have beneficial interests in Eco-Globe Development Limited.

(b) The directors, Ms. Lee Siu Fong, Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi, have beneficial interests in Cremalpina Co., Limited.

(c) Defiante Farmaceutica, Lda is a shareholder of the Company which is also a member of Sigma-Tau Group.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year can be referenced to note 10 and 11 to the consolidated financial statements. The remuneration of directors and key executives is determined by reference to the performance of individuals and market trends.

28. 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$121,703 (2005: HK$126,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2006, contributions of HK$23,273 (2005: HK$25,000) 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:

RESULTS

	Year ended 31 December				
			(Restated)	(Restated)	(Restated)
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	43,531	38,528	30,395	18,498	11,644
Cost of sales	(16,860)	(13,216)	(10,381)	(5,134)	(3,200)
Gross profit	26,671	25,312	20,014	13,364	8,444
Other revenue	922	1,770	623	714	216
Selling and distribution expenses	(14,420)	(14,614)	(13,207)	(6,850)	(5,030)
Administrative expenses	(15,850)	(11,913)	(10,294)	(12,126)	(8,384)
(Loss) profit from operations	(2,677)	555	(2,864)	(4,898)	(4,754)
Finance costs	(704)	(446)	(565)	(593)	(596)
(Loss) profit before taxation	(3,381)	109	(3,429)	(5,491)	(5,350)
Taxation	(88)	44	36	51	27
(Loss) profit before minority interest	(3,469)	153	(3,393)	(5,440)	(5,323)

ASSETS AND LIABILITIES

	31 December				
			(Restated)	(Restated)	(Restated)
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	33,771	30,680	24,782	24,900	28,026
Current assets	18,849	16,162	23,259	18,307	19,026
Current liabilities	(18,264)	(10,562)	(11,666)	(10,696)	(12,303)
Net current assets	585	5,600	11,593	7,611	6,723
Non-current liabilities	(1,167)	(620)	(648)	(4,648)	(1,497)
Net assets	33,189	35,660	35,727	27,863	33,252

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited ("the Company") will be held at Unit 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, Hong Kong on Monday, 30 April 2007 at 3:30 p.m. for the following purposes:

As ordinary business:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2006.

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") to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;

(b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph 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."

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 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."

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 the following resolution as a Special Resolution:–

"**THAT** the Articles of Association be and is hereby amended by deleting the first sentence of Articles 118(a) and substituting the following therefor:

"The Company may by ordinary resolution at any time remove any Director (including a Managing Director or other executive Director, but without prejudice to any claim for damages under any contract) before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead.""

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

Hong Kong, 23 March 2007

Notes:

(1) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(2) A form of proxy for use at the above meeting is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.

(3) A circular containing further details regarding items 2, 4 and 5 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to shareholders together with 2006 Annual Report.