



## Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司\*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8221)

### FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at [www.lespharm.com](http://www.lespharm.com).*

\* for identification only

## **BUSINESS REVIEW**

Year 2008 was a record year after the Group attained a breakthrough performance in the year 2007. The leap in profitability and turnover was accompanied with significant progress in every aspect of the business, from manufacturing to sales, and from product development to partner expansion.

### *Manufacturing facilities*

The eye gel production facility was inspected and certified as GMP compliant by the China SFDA in August 2008 which increases the dosage forms manufactured in Hefei from three to four. In addition, the Group carried out a complete renovation of its production facility and quality control facility in 2008, which resulted in a three fold increase in production capacity. The improvement in automation and analytical hardware also provides greater assurance in product quality.

### *Drug development*

The approval of *Eyprotor*<sup>®</sup> leads to the third launch of new product in as many years. *Eyprotor*<sup>®</sup> was the fruit of hardwork and perseverance of eight years by the Group's R&D team. It once again demonstrates the Group's capability to develop product from bench side to bedside.

The Group's second research and development centre has been established at the Hong Kong Science Park and its renovation work will be completed in around April 2009. The centre has a gross floor area of 1,724 square feet and pre-clinical studies such as chemistry and manufacturing development, specification development, formulation screening and stability study will be carried out at the site. The enhancement in R&D investment signifies the Group's commitment to sustainable growth through innovation.

### *Imported Products Registration*

The Group has successfully renewed the Import Drug License of the Group's flagship product *Carnitene*<sup>®</sup> in September 2008, paving the way for continual growth of the product.

During 2008, the Group has submitted three applications for marketing approval. The three products are *Veloderm*<sup>®</sup>, *Challenger* balloon and Bemiparin respectively and the review is underway. These products target towards diverse diseases that affect a significant number of patients. Their expected launch in 2009 will fuel the further growth of the Group.

Three clinical studies were initiated during 2008, making the number of ongoing studies to five. Both ALC and PLC studies enrolled 240 patients respectively and the expected completion dates are end of 2009 and middle of 2010 respectively. Both studies have progressed well and mid-term investigation review meetings were successfully concluded recently.

Also in 2008, the Group submitted application for clinical study of two imported products. Their respective reviews are ongoing and approval is envisaged in 2009.

#### *International partnership*

In pursuit of the Group's strategy of "growth through partnership", cooperation between the Group and its international partners has been expanded further. The Group strengthened its relationships with Italian pharmaceutical company Italfarmaco in 2008 by signing licensing and distribution agreement for the product *Gliatilin*<sup>®</sup>, which becomes the third product that the Group works together with Italfarmaco in China.

The Group also reached agreement with Helsinn for additional product *Gelclair*<sup>®</sup> in China which is complementary to the first product *Aloxi*<sup>®</sup>. This cooperation allows the Group to strengthen its position in cancer supporting care area.

During the year 2008, the Group made effort to further expand its gynecology product franchise by entering into a licensing and distribution agreement for *Lomexin*<sup>®</sup>, an anti-fungus drug indicated for vaginitis. Licensing and distribution agreement was also entered between the Group and US company Anesiva for its product *Zingo*<sup>®</sup> in China. *Zingo*<sup>®</sup>'s priority target is pediatric use which unmet need is high.

#### *Sales and Marketing*

The year 2008 witnessed the continuing growth of the Group's sales and marketing organization, highlighted by increase in sales for all the existing products. Among them, *Slounase*<sup>®</sup> registered the most impressive increase in sale volume by 156%. Other four existing products also performed well, achieving sales amount increment of 28%, 55%, 38% and 27 times for *Livaracine*<sup>®</sup>, *Yallaferon*<sup>®</sup>, *Carnitene*<sup>®</sup> and Iron Proteinsuccinylate Oral Solution respectively. The sales and marketing organization was also strengthened significantly in both human resource and operation structure. There was a net increase of 64% in sales and marketing personnel, making the Group more alert to local tenders and other matters which are vital to the penetration of products into the market place. The sales and marketing team was also trained to be more product oriented and focused, providing quicker and better response to market need.

Knowledge-base promotion had continued to be the main theme of the Group's brand building efforts in 2008. From Beijing to Hainan Island and from Xian to Fujian, the Group held a total of 457 seminars in 2008, bringing our message to more than 15,000 doctors. In addition, the Group had participated in three national pharmaceutical products trade fair and seven large scale national academic conferences such as National Cardiovascular Academic Conference, the Annual Meeting of Chinese Society of Clinical Oncology and the Hainan Province Anaesthetic Academic Conference.

In September 2008, the Group launched *Eyprotor*<sup>®</sup>, the third product in as many years. The product has since been gaining acceptance in the market place and should contribute to the growth of the Group in the future.

## **FINANCIAL REVIEW**

### *Turnover*

Turnover for the year ended 31 December 2008 was HK\$125.4 million, representing an increase of HK\$48.7 million or 63.5% from the same period in 2007. The growth was mainly contributed by *Slounase*<sup>®</sup> and *Carnitene*<sup>®</sup> with sales increased by 177% (HK\$ 19 million) and 38% (HK\$13 million) respectively for the year 2008. The sales of new product Iron Proteinsuccinylate Oral solution, which was launched in the fourth quarter of 2007, also increased by HK\$4.6 million during the year. Sales of *Livaracine*<sup>®</sup> and *Yallaferon*<sup>®</sup> for the year 2008 also increased by 28% and 55% respectively. Profit attributable to shareholders reached HK\$28 million for the year 2008, an increase of 147% over 2007.

### *Gross Profit Margin*

Gross profit margin for the year 2008 was 70.7%, represented an improvement compared with gross profit margin of 66.5% for the year 2007. The improvement in gross profit margin was mainly driven by enhancing productivity and manufacturing efficiency for in-house developed products.

### *Administrative Expenses*

Administrative expenses for the year 2008 increased by 41% compared with that of 2007. The increase in transaction volume caused the increase in staff cost and other operating expenses.

### *Selling and Distribution Expenses*

Selling and distribution expenses to turnover ratio for the year 2008 was 29.5 % which was same as that of last year.

## **PROSPECTS**

Despite the tough economic environment caused by the meltdown of worldwide financial system, the directors are confident about the growth momentum of the Group. With more than 20 products under different development stages, the Group possesses a diverse and rich product pipeline that will meet the patient's need and deliver sustained growth to the Group in 2009 and beyond.

**AUDITED CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	<i>Notes</i>	<b>2008</b> <b>HK\$'000</b>	2007 <i>HK\$'000</i>
Turnover	2	<b>125,421</b>	76,712
Cost of sales		<b>(36,779)</b>	(25,719)
Gross profit		<b>88,642</b>	50,993
Other revenue		<b>1,482</b>	973
Selling and distribution expenses		<b>(36,983)</b>	(22,597)
Research and development expenses		<b>(2,101)</b>	(1,499)
Administrative expenses		<b>(19,954)</b>	(14,192)
Profit from operations		<b>31,086</b>	13,678
Finance costs		<b>(505)</b>	(890)
Profit before taxation		<b>30,581</b>	12,788
Taxation	3	<b>(2,521)</b>	(1,418)
Net profit attributable to shareholders		<b><u>28,060</u></b>	<u>11,370</u>
Dividends	4	<b><u>6,642</u></b>	<u>3,305</u>
Earnings per Share		<b>HK cents</b>	HK cents
Basic	5	<b><u>6.77</u></b>	<u>3.11</u>
Diluted	5	<b><u>6.66</u></b>	<u>3.06</u>

**AUDITED CONSOLIDATED BALANCE SHEET**  
**AT 31 DECEMBER 2008**

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<b>Non-current Assets</b>			
Property, plant and equipment		<b>19,582</b>	15,253
Intangible assets		<b>26,506</b>	17,800
Lease premium for land		<b>1,248</b>	1,212
Goodwill		<b>3,900</b>	3,900
		<u><b>51,236</b></u>	<u>38,165</u>
<b>Current Assets</b>			
Lease premium for land		<b>33</b>	31
Inventories		<b>6,867</b>	8,521
Trade receivables	6	<b>17,914</b>	9,043
Other receivables, deposits and prepayments		<b>7,666</b>	12,212
Pledged bank deposits		<b>2,012</b>	2,012
Time deposits		<b>4,662</b>	10,360
Cash and bank balances		<b>17,520</b>	6,254
		<u><b>56,674</b></u>	<u>48,433</u>
<b>Current Liabilities</b>			
Trade payables	7	<b>1,598</b>	5,809
Other payables		<b>14,657</b>	13,084
Short term borrowings		<b>3,837</b>	4,228
Tax payable		<b>676</b>	1,131
		<u><b>20,768</b></u>	<u>24,252</u>
<b>Net Current Assets</b>		<u><b>35,906</b></u>	<u>24,181</u>
<b>Total Assets less Current Liabilities</b>		<u><b>87,142</b></u>	<u>62,346</u>
<b>Capital and Reserves</b>			
Share capital		<b>20,764</b>	20,656
Reserves		<b>64,571</b>	40,169
<b>Equity attributable to shareholders of the Company</b>		<u><b>85,335</b></u>	<u>60,825</u>
<b>Non-current Liabilities</b>			
Deferred tax liabilities		<b>1,807</b>	1,071
Long-term borrowings		<b>–</b>	450
		<u><b>1,807</b></u>	<u>1,521</u>
		<u><b>87,142</b></u>	<u>62,346</u>

**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Share capital	Share premium	Merger difference	Revaluation reserve	Share-based compensation reserve	Exchange reserves	Retained profits (Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	20,656	44,154	9,200	3,463	851	1,679	(19,178)	60,825
Employee share option benefits	-	-	-	-	316	-	-	316
Exercise of share options	108	379	-	-	(79)	-	-	408
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	194	-	925	-	1,119
2007 final dividend paid	-	-	-	-	-	-	(3,319)	(3,319)
2008 interim dividend paid	-	-	-	-	-	-	(2,074)	(2,074)
Net profit for the year	-	-	-	-	-	-	28,060	28,060
At 31 December 2008	<u>20,764</u>	<u>44,533</u>	<u>9,200</u>	<u>3,657</u>	<u>1,088</u>	<u>2,604</u>	<u>3,489</u>	<u>85,335</u>
At 1 January 2007	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
Employee share option benefits	-	-	-	-	226	-	-	226
Exercise of share options	53	203	-	-	(41)	-	-	215
Issue of new shares upon exercise of warrants	3,292	11,455	-	-	-	-	-	14,747
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	226	-	852	-	1,078
Net profit for the year	-	-	-	-	-	-	11,370	11,370
At 31 December 2007	<u>20,656</u>	<u>44,154</u>	<u>9,200</u>	<u>3,463</u>	<u>851</u>	<u>1,679</u>	<u>(19,178)</u>	<u>60,825</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. BASIS OF PREPARATION**

In the current year, the Group has applied the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>1</sup>
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 39 (Amendments)	Eligible Hedged Items <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HK(IFRIC)-Int 13	Customer loyalty programmes <sup>3</sup>
HK(IFRIC)- Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK (IFRIC)- Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>
HK(IFRIC)- Int 17	Distributions of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC)- Int 18	Transfers of Assets from Customers <sup>2</sup>

Apart from the above, the HKICPA has also issued Improvements to HKFRSs\* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC)-Int 9, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.



<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

\* Improvements to HKFRSs contain amendments to HKFRS 1, HKFRS 4, HKFRS 5, HKFRS 6, HKFRS 7, HKFRS 8, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 12, HKAS 14, HKAS 16, HKAS18, HKAS 19, HKAS 20, HKAS 21, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 33, HKAS 34, HKAS 36, HKAS 37, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, HK(IFRIC)-Int 2.

The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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

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

## **2. SEGMENT INFORMATION**

### **Business segments**

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

	<b>Proprietary products</b>		<b>Licensed products</b>		<b>Consolidated</b>	
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment turnover	<b>71,194</b>	41,248	<b>54,227</b>	35,464	<b>125,421</b>	76,712
Segment results	<b>20,579</b>	11,239	<b>12,800</b>	4,289	<b>33,379</b>	15,528
Interest income					<b>236</b>	227
Unallocated expenses					<b>(2,529)</b>	(2,077)
Profit from operations					<b>31,086</b>	13,678
Finance costs					<b>(505)</b>	(890)
Profit before taxation					<b>30,581</b>	12,788
Taxation					<b>(2,521)</b>	(1,418)
Profit attributable to shareholders					<b>28,060</b>	11,370
Segment assets	<b>55,214</b>	51,294	<b>28,501</b>	22,932	<b>83,715</b>	74,226
Unallocated assets					<b>24,195</b>	12,372
Total assets					<b>107,910</b>	86,598
Segment liabilities	<b>11,660</b>	11,550	<b>4,596</b>	14,223	<b>16,256</b>	25,773
Unallocated liabilities					<b>6,319</b>	–
Total liabilities					<b>22,575</b>	25,773

### Geographical segments

During the years ended 31 December 2008 and 2007, 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:

	<b>The PRC</b>		<b>Hong Kong</b>		<b>Total</b>	
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	<b>62,623</b>	41,486	<b>45,287</b>	45,112	<b>107,910</b>	86,598
Segment liabilities	<b>17,532</b>	11,550	<b>5,043</b>	14,223	<b>22,575</b>	25,773

### 3. TAXATION

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax		
Hong Kong	–	–
The PRC	<b>1,845</b>	988
Deferred tax		
Provision of current year	<b>676</b>	430
Taxation attributable to the Group	<b><u>2,521</u></b>	<b><u>1,418</u></b>

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

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

### 4. DIVIDENDS

	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend paid – HK\$0.005 (2007: Nil) per share	<b>2,074</b>	–
Final dividend proposed – HK\$0.011 (2007: HK\$0.008) per share	<b>4,568</b>	3,305*
	<b><u>6,642</u></b>	<b><u>3,305</u></b>

The final dividend of HK\$0.011 (2007: HK\$0.008) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. This proposed dividend is not included as a dividend payable in the consolidated balance sheet as at 31 December 2008.

\* The actual final dividend paid for 2007 was HK\$3,319,000 due to additional shares issued on 30 April 2008.

## 5. EARNINGS PER SHARE

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

	<b>The Group</b>	
	<b>2008</b>	2007
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	<b>HK\$28,060,000</b>	HK\$11,370,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>414,718,852</b>	365,519,795
Effect of dilutive potential ordinary shares:		
Options	<b>6,347,500</b>	6,139,691
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>421,066,352</b>	371,659,486

## 6. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers. The fair value of the Group's trade receivables at 31 December 2008 approximate to the corresponding carrying amount.

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

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
1-90 days	<b>16,869</b>	8,729
91-180 days	<b>912</b>	283
181-365 days	<b>265</b>	63
Over 365 days and under 3 years	<b>162</b>	75
	<b>18,208</b>	9,150
Less: Allowance for bad and doubtful debts	<b>(294)</b>	(107)
	<b>17,914</b>	9,043

Movement in allowance for bad and doubtful debts

	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	107	61
Exchange rate adjustments	6	3
Provision for doubtful debts	181	43
	<u>294</u>	<u>107</u>
	<u><u>294</u></u>	<u><u>107</u></u>

**7. TRADE PAYABLES**

The fair value of the Group's trade payables at 31 December 2008 approximate to the corresponding carrying amount.

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

	<b>The Group</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
1-90 days	1,598	5,809
91-180 days	-	-
181-365 days	-	-
Over 365 days	-	-
	<u>1,598</u>	<u>5,809</u>
	<u><u>1,598</u></u>	<u><u>5,809</u></u>

**DIVIDENDS**

The Board of Directors recommended a final dividend of HK\$0.011 per share (2007: HK\$0.008) to shareholders registered in the Company's Register of Members as at the close of business on 5 May 2009. Upon approval by shareholders, the final dividend will be paid on or about 14 May 2009.

**CLOSURE OF REGISTER OF MEMBERS**

The Register of members will be closed from Wednesday, 29 April 2009 to Tuesday, 5 May 2009 (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 28 April 2009.

## **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 2008 (2007: Nil).

## **AUDIT COMMITTEE**

The Group's audited results for the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **CORPORATE GOVERNANCE PRACTICES**

The Group has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2008, with deviations from provision B.1 of the Code.

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

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

Hong Kong, 20 March 2009