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 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.leespharm.com.

* *for identification only*

BUSINESS REVIEW

During the year under review, despite overall difficult economical environment, the pharmaceutical industry in the PRC maintained its growth trend. The proposed healthcare reform that includes extension of medical reimbursement scheme for rural residents also provides growth opportunity for the industry. For the Group, 2009 was a banner year not only for sales and profit, but also for drug research & development and corporate development.

Turnover and Profit

The Group's positive momentum of growth remained strong in 2009 with record high in both turnover and net profit. The turnover of HK$173,837,000 and net profit of HK$46,369,000 for the year 2009 represented increase of 38.6% and 65.2% respectively compared with previous year.

Manufacturing Facility

The Group's manufacturing facility of lyophilized powder for injection in Hefei was inspected by China SFDA for renewal of GMP certification in October, 2009. The facility was found in compliance with the Good Manufacturing Practice of China and renewal of GMP certification was subsequently obtained.

After major renovation of its injection production facility in 2008, the Group focused on upgrading and expanding its purification facility to meet the increasing market demand in 2009. New automatic purification systems were installed and erected with online monitoring for better quality control. The investment has resulted in more than doubling of the Group's purification production capacity.

Drug Development

2009 was also marked as a breakthrough year for the Group in drug development. The first-in-class anti-platelet drug *Declotana*® has become the first new drug entity in its class to be tested in human in the world. This significant milestone is made possible by the decade long dedication and relentless scientific pursuit by the R&D team of the Group. The preliminary phase I study has demonstrated expected pharmacodynamic effect and satisfactory safety profile that warrants an aggressive development program. It is the Group's intention to move this exciting product through the clinical development stages as swiftly as possible. *Declotana*® is a platelet 1b receptor antagonist and effectively inhibits platelet adhesion and subsequent aggregation. It is developed for prevention of thrombosis in patients undergone PTCA and stenting as well as for treatment of ischemic heart diseases such as unstable angina.

The Group has also been making excellent progress in its other proprietary drug originated from its in-house discovery program. The novel protein possesses both in vitro and in vivo anti-angiogenesis activities and preliminary animal study has confirmed its potent anti-cancer activity. A development program has been put into place to accelerate the development of this product. This product represents one of six products that are under development by the Group in the areas of cancer treatment or cancer treatment supporting care as the Group is making its headway in oncology drug development.

Overall, the Group has 22 products under different development stages, ranging from preclinical study to phase III clinical study and NDA submission with focusing in areas of cardiovascular, gynecology, dermatology, CNS, wound healing and oncology. Three clinical studies were concluded in 2009 and six new clinical study programs are running currently. Several approvals for clinical studies are expected this year, highlighting the commitment of the Group to sustain growth through innovation and development.

Last, but not least, the Group's R&D facility in Hong Kong was in full service last year, providing great support to R&D efforts in Hefei. The facility has improved the efficiency and productivity of the Group's R&D works.

Imported Products Registration

During 2009, the Group made six registration related submissions to China SFDA for six different licensed products, continuing to augment the product pipeline.

One of the submission led to the successful renewal of Imported Drug License in January 2010 for marketing of Iron Proteinsuccinylate Oral Solution in the PRC. This achievement will enable the group to continue its effort in expanding its market in the PRC. Sales of Iron Proteinsuccinylate Oral Solution had increased significantly by 120.4% for the year 2009 over 2008.

The Group has also successfully obtained the Registration Certificate of Medical Device for marketing of *Veloderm*® in the PRC. *Veloderm*® is wound dressing composed of pure cellulose microfibrils used for clinical management of cutaneous lesions and ulcers. It is indicated as a temporary skin substitute in case of superficial epidermal loss such as burns, wounds, abrasions and ulcers. The successful registration of *Veloderm*® in China ascertains the Group's ability to navigate the complex regulatory pathways of China SFDA and bring in licensed products into the market place.

The registration of *Challenger*® balloon and Bemiparin is under final review by the China SFDA. The anticipated launch of those products in the coming months could further widen the profitability of the Group.

International Partnerships

The Group concluded a license agreement with Nippon Shinyaku Co. Ltd., a listed, research driven pharmaceutical company in Japan, for pharmaceutical product containing antibacterial agent "Prulifloxacin" for the treatment of urinary tract infections and respiratory tract infections. Japan is the second largest pharmaceutical market in the world and its pharmaceutical companies are renowned for their drug development capability and product quality. Giving the Group's partnerships with US and European companies only, the alliance with Nippon Shiyaku of Japan presents new horizon of opportunity for the Group, enabling future access to Japanese product and technology.

The Group also executed a collaboration and license agreement with Jennerex, Inc for the clinical development and commercialization of the product JX-594 in the PRC, Hong Kong and Macau. JX-594 is the newest generation of oncolytic virus that could revolutionize the treatment of cancer. Phase II study has been ongoing in US and Asia with promising results. A global, pivotal phase III study for the treatment of hepatocellular carcinoma (HCC) under US FDA Special Protocol Assessment program will be conducted. The Group will be partner in the study and global approval will be sought after conclusion of the study.

In 2009, the Group signed a license agreement with Recordati Ireland Limited for the distribution and marketing of *Zanidip*® (Lercanidipine tablets) in Hong Kong and Macau. *Zanidip*® is Calcium Channel Blockers (CCBs) indicated for the treatment of hypertension. CCB is the most prescribed class of anti-hypertension drugs today and *Zanidip*® is the latest CCB with better selectivity and safety profile. For PRC, the Group has secured the exclusive distributorship for *Dafnegin*® from Polichem, a Swiss company. *Dafnegin*® is registered in China and is indicated for Candiadis, a condition with relatively high prevalence in China.

In the corporate development front, the Group also expanded its strategic partnership. Having formed a strategic partnership with its industrial shareholder Sigma-Tau from Europe, the Group broadened its shareholders bases by placing shares to a strategic shareholder, Vivo Ventures Fund Cayman VI, L.P. ("Vivo") in August 2009. With Vivo's vast network in bioscience community in the United States of America, it can help facilitate the Group's access to further partnership in product licensing and technology transfer, expanding the Group's product portfolio and strengthening the Group's ability for sustainable growth.

Sales and Marketing

The sales remained strong in the year of 2009, evidenced by an increase of 39% over the year before. The strong organic growth was fueled by impressive performances of all products, regardless its year in the market. The newer products such as *Slounase*® and Iron Proteinsuccinylate Oral Solution, which have been launched since 2006 and 2007 respectively, continued to achieve phenomenal growth with sales leap of 68.5% and 120.4% respectively during the year 2009. Sales of *Livaracine*®, *Yallaferon*® and *Carnitene*® which were all first launched more than five years ago, increased by 39.4%, 21.7% and 14.2% respectively for the year 2009. It is worth mentioning that *Livaracine*® has maintained its market leadership despite presence in the market for more than ten years. *Livaracine*®'s distinct quality was recognized by the central government in June, 2009 which could further help to consolidate its market leadership position.

The marketing team was strengthened in 2009 with introduction of product manager system for better brand management and product life cycle management. Comprehensive marketing program including brand building, seminar and professional conference was tailor-made for each product to drive its sales. In addition, in anticipation of more new product launch, the marketing team was expanded and injected with unique experiences with qualified personnel.

In sales area, the Group made great effort to complement its existing distributorship model with detailing sales model in 2009. As the Group expands its products' reach to specialized areas such as oncology and burn, effective and efficient delivery of product related message and knowledge are critical to successful sales. To this end, the Group increased its detailing sales team's presence from three cities to twelve cities in 2009. The increasing investment in the detailing sales model is expected to accelerate the penetration of the Group's product in the market place, to boost the sales in the existing distributorship model and to make the Group's sales and marketing organization more competitive in the pharmaceutical industry in PRC.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2009 was HK$173,837,000, representing an increase of HK$48,416,000 or 38.6% from previous year. The growth was mainly contributed by *Slounase*® and *Livaracine*® with sales increased by 68.5% (HK$20 million) and 39.4% (HK$11 million) respectively for the year 2009. The sales of new product Iron Proteinsuccinylate Oral solution, also increased by 120.4% or HK$5.7 million for the year. Sales of *Yallaferon*® and *Carnitene*® for the year 2009 also increased by 22% and 14% respectively. Profit attributable to shareholders reached HK$46,369,000 for the year 2009, an increase of 65.2% over 2008.

Gross Profit Margin

Gross profit margin for the year 2009 was 71.7%, represented an improvement compared with gross profit margin of 70.7% for the year 2008. 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 2009 increased by HK$2,532,000 compared with that of 2008. 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 2009 was 27.5%, represented an improvement comparing with 29.5% for that of last year.

PROSPECTS

The Group has entered into a very exciting growth phase and is expected to make significant strikes in many areas in 2010 and beyond.

In the corporate front, having met the financial requirement of listing on the main board of Hong Kong Stock Exchange, the Group is contemplating the switch of its listing from the Growth Enterprise Market to the main board in the first half of 2010. The ensuing listing on the main board could enhance the profile of the Group, providing broader growth opportunity to the Group.

The growth momentum of sales will be boosted by enlistment of the Group's product on the national reimbursement scheme and by launching of new products. Two of the Group's existing products have been included in the newly published China's National Drug Reimbursement List. The implement of reimbursement scheme will broaden the reach of the products and accelerate its penetration in the market place. In addition, the Group is expected to launch at least three new licensed products, *Zanidip*®, *Dafnegin*® and *Veloderm*® in first half of 2010. The significant increase in the number of products in the market place will not only broaden the revenue base for sustainable growth, but also propel the Group to a new level of scale of economy.

Livaracine®, which is one of the Group's flagship products with over 11 years of clinical experiences, was recognized by the PRC government for its distinct quality in June 2009. The recognition will undoubtedly boost the product's acceptance by the medical community and help to consolidate its market leadership position.

Together with China Opportunity, a private equity fund and Sigma-Tau, the Group has acquired the complete assets of *Zingo*® (lidocaine hydrochloride monohydrate) powder intradermal injection system, including technology know-how, manufacturing equipment and global marketing right. *Zingo*® was approved by FDA of US to reduce the pain associated with peripheral IV insertions or blood draws. A pilot plant will be set up in the Hong Kong Science Park for the manufacturing of the product and US relaunch of the product is expected in 24 to 30 months. This investment signifies the Group's commitment to diversify its revenue streams and to build more solid foundation for future growth.

The Group is well positioned in China's pharmaceutical industry as a fully integrated specialty pharmaceutical company to benefit from the rapid growth of the industry. It is the Group's intention to not only maintain, but also accelerate its positive growth momentum in 2010 and beyond.

AUDITED CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Turnover	2	**173,837**	125,421
Cost of sales		**(49,262)**	(36,779)
Gross profit		**124,575**	88,642
Other revenue		**4,911**	1,482
Selling and distribution expenses		**(47,842)**	(36,983)
Research and development expenses		**(5,686)**	(2,101)
Administrative expenses		**(22,486)**	(19,954)
Profit from operations		**53,472**	31,086
Finance costs		**(689)**	(505)
Profit before taxation		**52,783**	30,581
Taxation	3	**(6,414)**	(2,521)
Net profit attributable to shareholders		**46,369**	28,060
Dividends	4	**10,788**	6,642
		HK cents	*HK cents*
Earnings per Share			
Basic	5	**10.85**	6.77
Diluted	5	**10.64**	6.66

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	HK$'000	*HK$'000*
Profit attributable to shareholders	**46,369**	28,060
Other comprehensive income:		
Exchange differences on translation of:		
– financial statements of overseas subsidiary	**346**	925
– revaluation of overseas buildings	**32**	194
Other comprehensive income attributable to shareholders, net of tax	**378**	1,119
Total comprehensive income attributable to shareholders	**46,747**	29,179

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	Notes	**2009** ***HK$'000***	2008 *HK$'000*
Non-current Assets			
Property, plant and equipment		**25,085**	19,582
Intangible assets		**59,305**	26,506
Lease premium for land		**1,225**	1,248
Goodwill		**3,900**	3,900
		89,515	51,236
Current Assets			
Lease premium for land		**33**	33
Inventories		**26,814**	6,867
Trade receivables	6	**13,392**	17,914
Other receivables, deposits and prepayments		**16,318**	7,666
Pledged bank deposits		**2,012**	2,012
Time deposits		**–**	4,662
Cash and bank balances		**60,482**	17,520
		119,051	56,674
Current Liabilities			
Trade payables	7	**1,642**	1,598
Other payables		**39,434**	14,657
Short term borrowings		**8,355**	3,837
Obligations under finance lease		**129**	–
Tax payable		**1,299**	676
		50,859	20,768
Net Current Assets		**68,192**	35,906
Total Assets less Current Liabilities		**157,707**	87,142
Capital and Reserves			
Share capital		**22,506**	20,764
Reserves		**122,224**	64,571
Equity attributable to shareholders of the Company		**144,730**	85,335
Non-current Liabilities			
Deferred tax liabilities		**4,161**	1,807
Long-term borrowings		**8,316**	–
Obligations under finance lease		**500**	–
		12,977	1,807
		157,707	87,142

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium	Merger difference	Share-based compensation reserve	Other comprehensive income		Retained profits (Accumulated losses)	Total
					Revaluation reserve	Exchange reserves		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335
Employee share option benefits	–	–	–	325	–	–	–	325
Exercise of share options	228	1,235	–	(223)	–	–	–	1,240
Issue of new shares under subscription agreement	1,514	17,723	–	–	–	–	–	19,237
2008 final dividend paid	–	–	–	–	–	–	(4,568)	(4,568)
2009 interim dividend paid	–	–	–	–	–	–	(3,586)	(3,586)
Total comprehensive income attributable to shareholders	–	–	–	–	32	346	46,369	46,747
At 31 December 2009	22,506	63,491	9,200	1,190	3,689	2,950	41,704	144,730
At 1 January 2008	20,656	44,154	9,200	851	3,463	1,679	(19,178)	60,825
Employee share option benefits	–	–	–	316	–	–	–	316
Exercise of share options	108	379	–	(79)	–	–	–	408
2007 final dividend paid	–	–	–	–	–	–	(3,319)	(3,319)
2008 interim dividend paid	–	–	–	–	–	–	(2,074)	(2,074)
Total comprehensive income attributable to shareholders	–	–	–	–	194	925	28,060	29,179
At 31 December 2008	20,764	44,533	9,200	1,088	3,657	2,604	3,489	85,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. BASIS OF PREPARATION

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), that are relevant to its operations and effective for annual periods beginning on or after 1 January 2009. In addition, the Group has early adopted HKFRS 3 (revised in 2008) Business Combinations, HKAS 27 (revised in 2008) Consolidated and Separate Financial Statements in advance of their effective dates.

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
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The impact of the application of the new and revised HKFRSs is discussed below.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 3 (revised in 2008) Business Combinations

HKFRS 3 (2008) has been adopted in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the annual period beginning on or after 1 July 2009. Specifically, HKFRS 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009 in accordance with the relevant transitional provisions. The adoption of HKFRS 3 (2008) has not affected the accounting for business combinations in the current year and prior years.

HKAS 27 (revised in 2008) Consolidated and Separate Financial Statements

HKAS 27 (2008) has been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009) and has been applied retrospectively (subject to specified transitional provisions). The revised Standard has resulted in changes in the Group's accounting policies regarding changes in ownership interests in subsidiaries of the Group. The new accounting policies in relation to changes in ownership interests in subsidiaries have been applied prospectively to changes that take place on or after 1 January 2009 in accordance with the relevant transitional provisions.

In prior years, in the absence of specific requirement in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in existing subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

Under HKAS 27 (2008), increases or decreases in ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are dealt with in equity and attributed to the owners of the parent, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (2008) requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in profit or loss.

Except the above disclosure, the adoption of the other 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.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 28 (Revised)	Investments in Associates[1]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedged Items[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

As part of *Improvement to HKFRSs (2009)*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 performance and 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

Application of HKFRS 8 Operating Segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. The adoption of HKFRS 8 has not resulted the change of presentation.

Principal activities are as follows:

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

The following is an analysis of the Group's revenue and results by reportable segment:

	Proprietary products		**Licensed products**		**Consolidated**	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**106,275**	71,194	**67,562**	54,227	**173,837**	125,421
Segment results	**40,017**	20,579	**19,631**	12,800	**59,648**	33,379
Interest income					**79**	236
Unallocated expenses					**(6,255)**	(2,529)
Profit from operations					**53,472**	31,086
Finance costs					**(689)**	(505)
Profit before taxation					**52,783**	30,581
Taxation					**(6,414)**	(2,521)
Profit attributable to shareholders					**46,369**	28,060

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2008: Nil).

Segment results represent the profit earned by each segment without allocation of central administration costs, interest income, finance costs, and income tax expense. This is measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Proprietary products		**Licensed products**		**Consolidated**	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**61,753**	55,214	**84,318**	28,501	**146,071**	83,715
Unallocated assets					**62,495**	24,195
Total assets					**208,566**	107,910
Segment liabilities	**15,423**	11,660	**26,282**	4,596	**41,705**	16,256
Unallocated liabilities					**22,131**	6,319
Total liabilities					**63,836**	22,575

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than cash and bank balances, pledged bank deposits and deferred tax assets. Goodwill is allocated to proprietary products segments.

- all liabilities are allocated to reportable segments other than current and deferred tax liabilities, and short and long term borrowings.

3. TAXATION

	THE GROUP	
	2009	2008
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
PRC Enterprise Income Tax	**4,388**	1,845
Over-provision in prior year	**(312)**	–
	4,076	1,845
Deferred tax		
Provision of current year	**2,338**	676
Total income tax recognised in profit or loss	**6,414**	2,521

On 26 June 2008, the Hong Kong Legislative Council passes the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5%, which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Hong Kong Profits Tax has not been provided as the Group had no assessable profit in Hong Kong for the year.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 15% (for both years).

4. DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Interim dividend paid – HK$0.008 (2008: HK$0.005) per share	**3,586**	2,074
Final dividend proposed – HK$0.016 (2008: HK$0.011) per share	**7,202**	4,568
	10,788	6,642

The final dividend of HK$0.016 (2008: HK$0.011) 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 statement of financial position as at 31 December 2009.

5. EARNINGS PER SHARE

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

	THE GROUP	
	2009	2008
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	**HK$46,369,000**	HK$28,060,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**427,386,717**	414,718,852
Effect of dilutive potential ordinary shares:		
Options	**8,285,626**	6,347,500
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**435,672,343**	421,066,352

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 2009 approximate to the corresponding carrying amount.

The following is an aging analysis of trade receivables at 31 December 2009.

	THE GROUP	
	2009	2008
	HK$'000	*HK$'000*
1 – 90 days	**12,882**	16,869
91 – 180 days	**284**	912
181 – 365 days	**453**	265
Over 365 days and under 3 years	**214**	162
	13,833	18,208
Less: Allowance for bad and doubtful debts	**(441)**	(294)
	13,392	17,914

Movement in allowance for bad and doubtful debts

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**294**	107
Exchange rate adjustments	**2**	6
Provision for doubtful debts	**145**	181
Balance at the end of the year	**441**	294

7. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2009 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2009.

	THE GROUP	
	2009	2008
	HK$'000	*HK$'000*
1 – 90 days	**1,634**	1,598
91 – 180 days	**–**	–
181 – 365 days	**8**	–
Over 365 days	**–**	–
	1,642	1,598

DIVIDENDS

The Board of Directors recommended a final dividend of HK$0.016 (2008: HK$0.011) per share to shareholders registered in the Company's Register of Members as at the close of business on 30 April 2010. Upon approval by shareholders, the final dividend will be paid on or about 14 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 27 April 2010 to Friday, 30 April 2010 (both days inclusive). In order to qualify for the proposed final dividend for the year ended 31 December 2009, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company 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 Monday, 26 April 2010.

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 2009 (2008: Nil).

AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2009 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 2009, 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, 5 March 2010