



LEE'S PHARM.

李 氏 大 藥 廠



Third Quarterly Report
2002

* For identification purposes only

Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

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

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This report, for which 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 the Growth Enterprise Market of The Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, 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.



CHAIRPERSON'S STATEMENT

I am pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the nine months ended 30 September 2002.

Financial performance

The Group's unaudited consolidated turnover for the three months ended 30 September 2002 amounted to approximately HK\$3.0 million, representing a slightly increase of 2.8% over the last quarter.

Comparing financial performance to the same period last year, turnover for the nine months ended 30 September 2002 from sales of Livaracine amounted to approximately HK\$6.3 million, representing an increase of about 24% from approximately HK\$5.1 million in the corresponding period in 2001. Even though turnover for the three months ended 30 September 2002 decreased by approximately HK\$0.3 million as compared with the same period in 2001, the debtors turnover days significantly improved from 139 days to 67 days as a result of the adoption of cash-on-delivery policy to new customers.

With the successful implementation of new sales and marketing strategy, selling and distribution expenses to turnover ratio continued to improve and reduced substantially from 53% to 44% for the nine months ended 30 September 2001 and 2002 respectively. Excluding the effect of gain on disposal of technology of a developing product last year, loss from operation in the nine months to September recorded only a slight increase of approximately HK\$0.4 million year-on-year despite a substantially higher administrative cost incurred in the quarter after the company's listing on the GEM of the Stock Exchange on 15 July 2002.

Business review

During the three months ended 30 September 2002, the Group has achieved the following objectives:

- The successful listing of the Company on GEM of the Stock Exchange in July 2002 has ushered the Group into a new era, creating an opportunity for rapid growth in the future;
- 83% growth in sales volume of Livaracine. Due to our shift to a more effective and efficient sales and marketing system, net selling price was reduced accompanied with a substantial reduction of selling expenses. Therefore, the effect of volume growth was less apparent and it resulted in only 24% growth in terms of sales amount. Despite the selling price of Livaracine has been decreased, the gross profit margin was kept at around 74%;
- Extension for the treatment of Yallaferon to cervicitis arouse the interest of distributors which lead to 11 distribution agreements newly signed and shortened its introductory period since its launch in July last year; and
- The renewal of Good Manufacturing Practice Certificate for gel workshop for further five years has been obtained.

**Business outlook**

With a new drug registration regulation in the Peoples Republic of China ("PRC") that emphasises on intellectual property right and its protection coming into effect soon, the Group is in an advantageous position to better compete in the market place as it has built up a strong intellectual property portfolio. In the coming months, the Group will continue to focus its efforts and resources on the following areas:

- Submitting applications of three products to the State Drug Administration of the PRC for approval of clinical studies;
- Obtaining the approval and initiating clinical studies on four products;
- Expanding its collaboration with United States of America ("US") and European drug development companies and biotechnology companies;
- Continuing efforts to build up its pipeline through licensing in technologies from US and Europe;
- Obtaining licenses and regulatory approvals for sales of existing products and newly licensed-in drugs in Hong Kong; and
- Upgrading its manufacturing facility to improve both productivity and quality.

I would like to take this opportunity to thank the management and staff for their hard work and continuing dedication in making the Company a leading biopharmaceutical company.

Lee Siu Fong

Chairperson

Hong Kong, 14 November 2002

UNAUDITED CONSOLIDATED RESULTS

For the three months and nine months ended 30 September 2002

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	(2)	3,008	3,268	8,560	7,786
Cost of sales		(786)	(745)	(2,332)	(1,739)
Gross Profit		2,222	2,523	6,228	6,047
Other revenue		79	95	202	239
Selling and distribution expenses		(1,191)	(1,724)	(3,726)	(4,162)
Administrative expenses		(2,547)	(922)	(5,514)	(4,491)
Loss from operations		(1,437)	(28)	(2,810)	(2,367)
Finance costs		(158)	(174)	(453)	(542)
		(1,595)	(202)	(3,263)	(2,909)
Gain on disposal of technology of a developing product		-	1,396	-	1,396
Profit (loss) before taxation		(1,595)	1,194	(3,263)	(1,513)
Taxation	(4)	-	-	-	-
Profit (loss) before minority interests		(1,595)	1,194	(3,263)	(1,513)
Minority interests		102	-	1,914	-
Net profit (loss) attributable to shareholders		(1,493)	1,194	(1,349)	(1,513)
Dividend	(5)	-	-	-	-
		HK cents	HK cents	HK cents	HK cents
Earnings (loss) per Share					
Basic	(6)	(0.54)	0.65	(0.59)	(0.82)
Diluted	(6)	(0.53)	0.64	(0.58)	(0.82)



Notes:

1. Basis of preparation

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants and the disclosure requirements of GEM Listing Rules.

2. Turnover

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

3. Segment information

The Group is principally engaged in the development, manufacturing and sales of pharmaceutical products solely in the PRC for the three months and nine months ended 30 September 2002 and 2001. No segment information is presented accordingly.

4. Taxation

No provision for Hong Kong, PRC and overseas profits tax has been made as the Group had no estimated assessable profit for the three months and nine months ended 30 September 2002 (2001: Nil).

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future assessable profits as it is not certain that the tax losses will be utilised in the foreseeable future.

5. Dividend

The Board does not recommend the payment of quarterly dividend for the period (2001: Nil).

6. Earnings (loss) per share

The calculation of basic earnings per share for the three months and nine months ended 30 September 2002 is based on the net loss of approximately HK\$1.5 million and HK\$1.3 million (Three months and nine months ended 30 September 2001: profit of approximately HK\$1.2 million and loss of approximately HK\$1.5 million) respectively, and the weighted average number of Shares of 277,811,957 and 229,639,836 (Three months and nine months ended 30 September 2001: 184,000,000) Shares in issue respectively during the periods.

For the purpose of the calculation of basic earnings per share for the three months and nine months ended 30 September 2002 and 2001, the weighted average number of Shares is determined based on completion of the Group's Reorganisation and its initial public offering of its shares in July 2002.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2002 is based on the net loss of approximately HK\$1.5 million and HK\$1.3 million (Three months and nine months ended 30 September 2001: profit of approximately HK\$1.2 million and loss of approximately HK\$1.5 million) respectively, and the weighted average number of Shares of 279,478,624 and 231,306,503 (Three months and nine months ended 30 September 2001: 185,500,000) Shares in issue plus Shares that would have been issued at fair value respectively during the periods.

The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of Shares for no consideration under the Pre-IPO Share Option Scheme as defined in the Prospectus of the Company dated 3 July 2002 ("Prospectus") based on the subscription price per share at HK\$0.28.



7. Reserves

	Unaudited					Total
	Share	Merger	Revaluation	Exchange	Accumulated	
	premium	difference	reserve	reserves	losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	-	-	-	173	(13,005)	(12,832)
Exchange rate adjustment	-	-	-	(188)	-	(188)
Loss for the year	-	-	-	-	(1,317)	(1,317)
At 31 December 2001	-	-	-	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	-	9,200	-	-	-	9,200
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	3,360	-	-	-	-	3,360
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	3,082	-	-	-	-	3,082
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	631	-	-	-	-	631
Issue of Shares to Huby Technology Limited for cash	1,856	-	-	-	-	1,856
Surplus on revaluation of property, plant and equipment	-	-	4,613	-	-	4,613
Issue of new Shares to public	26,250	-	-	-	-	26,250
Share issue expenses	(10,292)	-	-	-	-	(10,292)
Exchange rate adjustment	-	-	-	43	-	43
Loss for the Period	-	-	-	-	(1,349)	(1,349)
At 30 September 2002	24,887	9,200	4,613	28	(15,671)	23,057

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 September 2002, the interests of the Directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

1. Shares

Name of director	Notes	Number of issued ordinary shares of HK\$0.05 each in the Company held and nature of interest					Total
		Personal	Family	Corporate	Other		
Lee Siu Fong	(i)	2,334,375	-	163,290,625	-	165,625,000	
Leelalertsuphakun Wanee	(ii)	-	-	163,290,625	-	163,290,625	

Notes:

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

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

Pursuant to a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 26 June 2002, Ms. Lee and Mr. Lau Tai Wai were granted options on 26 June 2002 to subscribe for 1,600,000 Shares and 3,000,000 Shares of the Company respectively, at a subscription price of HK\$0.28 per Share. The above options granted under the Pre-IPO Share Option Scheme will, in respect of not more than 50% thereof, be exercisable not less than two years but not more than ten years

from the date of grant, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive), and in respect of the unexercised balance thereof, be exercisable not less than three years but not more than ten years from the date of grant, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Save as disclosed above, at no time during the three months ended 30 September 2002 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or the chief executive (including their spouses or children under 18 years of age) to acquire benefits by means of the acquisition of Shares of the Company or any other body corporate.

Save as disclosed above, none of the Directors or their associates had, as at 30 September 2002, had any interests in the shares of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SHARE OPTION SCHEMES

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

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

1. Outstanding share options

As at 30 September 2002, options to subscribe for an aggregate of 5,000,000 Shares of the Company granted pursuant to the Scheme were outstanding. No option was cancelled or lapsed since date of grant. Details of the grantees under the Pre-IPO Share Option Scheme are as follows:

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

Save as disclosed above, none of the Directors or their associates, as at 30 September 2002, had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

2. Share Option Scheme

Up to 30 September 2002, no option had been granted by the Company pursuant to the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following parties are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

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

Save as disclosed above, as at 30 September 2002, the Directors were not aware of any other person having an interest in shares representing 10% or more of the issued share capital of the Company.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, as at 30 September 2002, the following parties were the management shareholders of the Company and were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who are able to direct or influence the management of the Company:

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



SPONSOR'S INTERESTS

As at 30 September 2002, the Company's sponsor, Asia Investment Capital Limited ("Asia Investment Capital") has confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group.

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

COMPETING INTERESTS

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

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 15 July 2002.

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Shares of the Company commenced trading on GEM on 15 July 2002. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities during the nine months ended 30 September 2002.