

FIRST QUARTERLY REPORT 2003



**LEE'S PHARM.**  
李 氏 大 藥 廠

Lee's Pharmaceutical Holdings Limited  
李氏大藥廠控股有限公司\*  
(incorporated in the Cayman Islands with limited liability)

\* For identification purposes only

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.**

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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.*

## 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 ended 31 March 2003.

### Financial performance

The Group's unaudited consolidated turnover for the three months ended 31 March 2003 amounted to approximately HK\$3.22 million, representing an increase of 22.6% as compared with the corresponding period of 2002.

In the first quarter of 2003, the turnover of the Group's flagship product, Livaracine, has increased by 28% over the corresponding period of last year and was still in its growing path. Despite the reduced selling price of Livaracine, sales growth was derived from the 69% increment of sales volume from 129,000 vials to 218,000 vials.

Selling and distribution expenses to turnover ratio continued to improve and reduced substantially from 44.1% (for the three months ended 31 March 2002) to 28.8% (for the three months ended 31 March 2003) as a result of the successful implementation of sales and marketing strategy.

Loss from operations in the three months ended 31 March 2003 recorded only a slight increase of approximately HK\$0.48 million year-on-year despite a substantially higher administrative cost incurred in the quarter since the Company's listing on the GEM in 15 July 2002.

### Quarter highlights

During the three months ended 31 March 2003, the Group has achieved the following objectives:

- New drug application has been filed with the Department of Health, Hong Kong for its first license-in drug from Italy for treatment of diabetes.
- Patent application for the development and production of its proprietary interferon gel, Yallaferon®, has been approved by the Intellectual Property Bureau of the People's Republic of China ("PRC").
- New drug application has been submitted to the Department of Health, Hong Kong for its license-in azithromycin from Croatia.
- Approval has been obtained from the State Food and Drug Administration (the "SFDA") of the PRC to initiate clinical study on herpes zoster for Yallaferon®.
- A new drug application for its anti-fungus peptide has obtained the endorsement from a review committee meeting organised by Anhui Provincial Drug Administration.
- Upgrade of a key component of production process has been completed.

## Prospects

In the coming months, the Group will continue to focus its efforts and resources on the following areas:

- Pursuing innovative and proprietary for licensing products from United States of America (“US”) and Europe.
- Cooperating with an university in Hong Kong to conduct clinical study on OraFlu Plus, a US license-in drug for treatment of severe acute respiratory syndrome (“SARS”).
- Obtaining the approval for and initiating clinical studies on Gliconorm®, a license-in drug from Italy for treatment of diabetes.
- Submitting applications to the SFDA for approval of clinical trial on prevention of SARS for Yallaferon®.
- Initiating clinical studies on nephritic syndrome for Livaracine.

In addition, the Group is committed to the discovery and development of products for fighting against SARS. With two potential products on hand, it is highly expected that there will be a tremendous improvement in the Group’s financial performance in the coming quarter.

**Lee Siu Fong**  
*Chairperson*

Hong Kong, 14 May 2003

**UNAUDITED CONSOLIDATED RESULTS***For the three months ended 31 March 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Turnover	(2)	<b>3,222</b>	2,627
Cost of sales		<b>(1,009)</b>	(736)
Gross profit		<b>2,213</b>	1,891
Other revenue		<b>59</b>	46
Selling and distribution expenses		<b>(928)</b>	(1,158)
Administrative expenses		<b>(2,852)</b>	(1,832)
Loss from operations		<b>(1,508)</b>	(1,053)
Finance costs		<b>(176)</b>	(149)
Loss before taxation		<b>(1,684)</b>	(1,202)
Taxation	(4)	–	–
Loss before minority interest		<b>(1,684)</b>	(1,202)
Minority interest		–	–
Net loss for the period		<b>(1,684)</b>	(1,202)
Dividends	(5)	–	–
Loss per Share		<i>HK cents</i>	<i>HK cents</i>
Basic	(6)	<b>(0.58)</b>	(0.60)
Diluted	(6)	<b>(0.58)</b>	–

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 by the Group to outside customers during the period.

**3. Business and geographical segments**

As the Group is only engaged in the development, manufacturing and sales of pharmaceutical products solely in the PRC for the three months ended 31 March 2003, no segmental 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 ended 31 March 2003 (2002: 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. Dividends**

The Board does not recommend the payment of quarterly dividend for the period (2002: Nil).

**6. Loss per share**

The calculation of basic loss per share for the three months ended 31 March 2003 is based on the net loss of approximately HK\$1.68 million (2002: HK\$1.20 million), and the weighted average number of 289,225,000 (2002: 201,483,333) Shares in issue during the periods.

For the purpose of calculating basic loss per share for the three months ended 31 March 2002, 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 loss per share for the three months ended 31 March 2003 is based on the net loss of approximately HK\$1.68 million, and the weighted average number of 289,558,333 Shares in issue and issuable, calculated on the assumption that the Company's outstanding share options had been exercised.

## 7. Reserves

	Unaudited					Total HK\$'000
	Share premium HK\$'000	Merger difference HK\$'000	Revaluation reserve HK\$'000	Exchange reserves HK\$'000	Accumulated losses HK\$'000	
At 1 January 2002	-	-	-	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	-	9,200	-	-	-	9,200
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	3,360	-	-	-	-	3,360
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	3,082	-	-	-	-	3,082
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	631	-	-	-	-	631
Issue of Shares to Huby Technology Limited for cash	1,856	-	-	-	-	1,856
Issue of new Shares to public	26,250	-	-	-	-	26,250
Share issue expenses	(10,292)	-	-	-	-	(10,292)
Surplus on revaluation of property, plant and equipment not recognised in consolidated income statement	-	-	4,613	-	-	4,613
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	16	-	16
Net loss for the year	-	-	-	-	(3,467)	(3,467)
At 31 December 2002	24,887	9,200	4,613	1	(17,789)	20,912
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	-	-	-
Net loss for the period	-	-	-	-	(1,684)	(1,684)
At 31 March 2003	24,887	9,200	4,613	1	(19,473)	19,228



## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Cap. 396) of the laws of Hong Kong (the "SDI Ordinance") showed that the following shareholders have an interest of 10% or more of the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of Shares beneficially held</b>	<b>Percentage of shareholding</b>
Huby Technology Limited	155,290,625	53.7%
Ms. Lee Siu Fong	165,625,000	57.3%
Ms. Leelalertsuphakun Wanee	163,290,625	56.5%

Save as disclosed above, no other party was recorded in the register required to be kept by the Company under the SDI Ordinance as having an interest of 10% or more of the Shares of the Company as at 31 March 2003.

Following the coming into effect of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (the "SFO") on 1 April 2003, which repeals and replaces the SDI Ordinance, the register maintained under Section 336 of the SFO shows that the following shareholders have an interest of 5% or more in the issued share capital of the Company as at the date of this report:

<b>Name of shareholder</b>	<b>Number of Shares beneficially held</b>	<b>Percentage of shareholding</b>
Huby Technology Limited	155,290,625	53.7%
Ms. Lee Siu Fong	165,625,000	57.3%
Ms. Leelalertsuphakun Wanee	163,290,625	56.5%
High Knowledge Investments Limited	16,000,000	5.5%
Ms. Lue Shuk Ping, Vicky	16,000,000	5.5%

## MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, as at 31 March 2003, 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:

<b>Name of shareholder</b>	<b>Number of Shares beneficially held</b>	<b>Percentage of shareholding</b>
Huby Technology Limited	155,290,625	53.7%
Dynamic Achieve Investments Limited	8,000,000	2.8%
High Knowledge Investments Limited	16,000,000	5.5%
Ms. Lee Siu Fong	165,625,000	57.3%
Ms. Leelalertsuphakun Wanee	163,290,625	56.5%
Ms. Lue Shuk Ping, Vicky	16,000,000	5.5%

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

The interests of the Directors and their associates in the shares of the Company or its associated corporations as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance as at 31 March 2003 and Section 352 of the SFO as at the date of this report, were as follows:

<b>Name of director</b>	<i>Notes</i>	<b>Number of Shares held and nature of interest</b>				<b>Total</b>
		<b>Personal interest</b>	<b>Family interest</b>	<b>Corporate interest</b>	<b>Other interests</b>	
Ms. Lee Siu Fong	(i)	2,334,375	–	163,290,625	–	165,625,000
Ms. 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.

Save as disclosed above, none of the Directors, chief executives or their respective associates, as at 31 March 2003, had any interests in the securities of the Company or its associated corporations as recorded in the register required to be kept under Section 352 of the SFO.

## **DIRECTORS' AND CHIEF EXECUTIVES' RIGHT 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, among others, were granted options on 26 June 2002 to subscribe for 1,600,000 Shares and 3,000,000 Shares 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).

Pursuant to a share option scheme (the "Share Option Scheme") adopted by the Company on 26 June 2002, Ms. Leelalertsuphakun, Dr. Chan Yau Ching, Bob, Mr. Leung Yun Fai and Dr. Li Xiaoyi, among others, were granted options on 13 January 2003 to subscribe for 289,000 Shares, 100,000 Shares, 100,000 Shares and 2,890,000 Shares respectively, at a subscription price of HK\$0.405 per Share. The above options granted under the Share Option Scheme will be exercisable not less than six months but not more than ten years from the date of grant, i.e. during the period from 13 July 2003 to 12 January 2013 (both days inclusive).

Save as disclosed above, at no time during the three months ended 31 March 2003 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives (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.

## **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.

**Outstanding share options**

- (a) As at 31 March 2003, options to subscribe for an aggregate of 5,000,000 Shares of the Company granted pursuant to the Pre-IPO Share Option 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 granted	Date of grant	Option period	Exercise period	Exercise price per Share HK\$
<i>Executive Directors</i>					
Lee Siu Fong	800,000	26/06/2002	Not less than 2 years but not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	800,000	26/06/2002	Not less than 2 years but 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 less than 2 years but 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 less than 2 years but 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 less than 2 years but not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	200,000	26/06/2002	Not less than 2 years but not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
	<u>5,000,000</u>				

- (b) As at 31 March 2003, options to subscribe for an aggregate of 3,929,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. No option was cancelled or lapsed since date of grant. Details of the grantees under the Share Option Scheme are as follows:

Name of grantee	Number of share options granted	Date of grant	Option period	Exercise period	Exercise price per Share HK\$
<i>Executive Director</i>					
Leelalertsuphakun Wanee	289,000	13/01/2003	Not less than 6 months but not more than 10 years from date of grant	13/07/2003 to 12/01/2013	0.405
<i>Independent Non-executive Directors</i>					
Chan Yau Ching, Bob	100,000	13/01/2003	Not less than 6 months but not more than 10 years from date of grant	13/07/2003 to 12/01/2013	0.405
Leung Yun Fai	100,000	13/01/2003	Not less than 6 months but not more than 10 years from date of grant	13/07/2003 to 12/01/2013	0.405
<i>Employees</i>					
5 grantees	3,440,000	13/01/2003	Not less than 6 months but not more than 10 years from date of grant	13/07/2003 to 12/01/2013	0.405
	<u>3,929,000</u>				

Save as disclosed above, none of the Directors nor their associates, as at 31 March 2003, had any interest in securities of the Company or any of its associated corporations as defined in the SFO.

## **SPONSOR'S INTERESTS**

As at 31 March 2003, 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) had an interest in a business, which causes or may cause any significant competition with the business of the Group.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules during the period.

## **AUDIT COMMITTEE**

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company listed securities during the three months ended 31 March 2003.