



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

human

## Third Quarterly Report 2004

technology

\* 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.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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.*

## RESULTS

The board of Directors (the "Board") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30 September 2004, together with the comparative unaudited consolidated figures for the corresponding period in 2003 as follows:

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	(2)	8,435	3,499	22,313	13,662
Cost of sales		(3,132)	(905)	(7,698)	(3,388)
Gross Profit		5,303	2,594	14,615	10,274
Other revenue		29	47	495	689
Selling and distribution expenses		(3,386)	(1,593)	(9,466)	(5,043)
Administrative expenses		(2,472)	(3,219)	(7,857)	(8,812)
Loss from operations		(526)	(2,171)	(2,213)	(2,892)
Finance costs		(145)	(132)	(454)	(442)
Loss before taxation		(671)	(2,303)	(2,667)	(3,334)
Taxation	(3)	12	12	28	48
Loss before minority interest		(659)	(2,291)	(2,639)	(3,286)
Minority interest		–	–	–	–
Net loss for the period		(659)	(2,291)	(2,639)	(3,286)
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share					
Basic	(4)	(0.21)	(0.79)	(0.88)	(1.14)
Diluted	(4)	(0.21)	(0.79)	(0.88)	(1.13)

Notes:

### 1. Basis of preparation

The Company has adopted the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of GEM Listing Rules in preparing the unaudited consolidated results.

The accounting policies and method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2003.

The consolidated results for the three months and nine months ended 30 September 2004 have not been audited, but have been reviewed by the Company's auditors and the audit committee.

### 2. Turnover

The principal activities of the Group are development, manufacturing and sales of pharmaceutical products. During the period, turnover represents the net amount received and receivable for goods sold by the Group to outside customers and recognised as follows:

*Business segments:*

	For the three months ended 30 September		For the nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Proprietary products	5,396	3,499	15,624	13,662
License-in products	3,039	—	6,689	—
	<b>8,435</b>	3,499	<b>22,313</b>	13,662

*Geographical segment:*

During the period ended 30 September 2004 and 2003, more than 90% of the Group's turnover was derived from activities conducted in the People's Republic of China (the "PRC"), no geographical segmental information is presented.



### 3. Taxation

	For the three months ended 30 September		For the nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current tax				
Hong Kong	–	–	–	–
PRC	–	–	–	–
Deferred tax				
Credit of current period	12	12	28	48
<b>Taxation attributable to the Group</b>	<b>12</b>	<b>12</b>	<b>28</b>	<b>48</b>

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 2004 (2003: Nil).

### 4. Loss per share

The calculation of basic and diluted loss per share is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004	2003	2004	2003
Loss:				
Net loss for the period for the purpose of basic and diluted loss per share	<b>HK\$659,000</b>	HK\$2,291,000	<b>HK\$2,639,000</b>	HK\$3,286,000
Number of shares of the Company (the "Shares"):				
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>317,105,435</b>	289,225,000	<b>298,586,314</b>	289,225,000
Effect of dilutive potential ordinary shares: options	–	1,000,000	–	1,000,000
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>317,105,435</b>	290,225,000	<b>298,586,314</b>	290,225,000

No diluted loss per share is presented in 2004 because the exercise prices of the options were higher than the market price of the Shares for the period.

## 5. Reserves

	Share premium	Merger difference	Revaluation reserve	Exchange reserves	Accumulated losses	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1 January 2004	24,887	9,200	3,921	(14)	(23,413)	14,581
Issue of new shares to subscriber	8,664	–	–	–	–	8,664
Share issue expenses	(321)	–	–	–	–	(321)
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	(82)	–	(82)
Net loss for the period	–	–	–	–	(2,639)	(2,639)
At 30 September 2004	33,230	9,200	3,921	(96)	(26,052)	20,203
At 1 January 2003	24,887	9,200	4,613	1	(17,789)	20,912
Adjustment on adoption of SSAP12 (Revised)	–	–	(692)	11	(261)	(942)
At 1 January 2003, as restated	24,887	9,200	3,921	12	(18,050)	19,970
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	(29)	–	(29)
Net loss for the period	–	–	–	–	(3,286)	(3,286)
At 30 September 2003	24,887	9,200	3,921	(17)	(21,336)	16,655



## DIVIDEND

The Board does not recommend the payment of any dividend for the period (2003: Nil).

## FINANCIAL REVIEW

Turnover for the three months ended 30 September 2004 amounted to HK\$8.44 million representing an increase of 141.07% from HK\$3.50 million in the corresponding period last year. The increase in sales was driven by both the sales of new license-in products amounted to HK\$3.04 million and steady sales growth of existing proprietary products of HK\$1.90 million. Turnover for the nine months ended 30 September 2004 amounted to HK\$22.31 million, representing a 63.32% increase over the sales of HK\$13.66 million recorded during the same period last year.

During the period under review, proprietary product <Livaracine> continued to expand its market shares, evidenced by a sales growth of 42.06% and 51.95% for the three months and nine months ended 30 September 2004 as compared with the corresponding period last year.

Regardless of the effect of SARS which increase fourfold the sales volume in the second quarter 2003, sales of <Yallaferon> also improved significantly, seeing a 82.07% increase by average over last year.

In the third quarter of 2004, the sales of license-in product <L-Carnitine> was also expanded markedly, contributing to 35.73% of total turnover and increased by 60.53% over last quarter with a strong growth momentum.

Although the gross profit margin was reduced to 62.87% in the third quarter of 2004, compared to 74.14% for the same period in 2003 as a result of sales of license-in products having lower gross profit margin of 34.27%, the gross profit was more than double to HK\$5.30 million compared to HK\$2.59 million for the same period last year.

As the Group intensified its marketing effort, the selling and distribution expenses was increased significantly to HK\$3.39 million in the third quarter 2004 (2003: HK\$1.59 million). However, its percentage to sales decreased from last year's 45.53% to 40.14% in the quarter under review.

Better cost control was also achieved during the quarter, it was evidenced by not only a drastic decrease of administrative expenses to turnover ratio from 92.0% for the third quarter 2003 to 29.31% for this quarter, but also a net reduction of HK\$0.75 million.

Net loss in the third quarter 2004 continued the trend of narrowing and recorded a 71.24% decrease on a quarter-to-quarter base to HK\$0.66 million. The improvement in loss was a result of significant increase in turnover and tighter control of expenses.

## BUSINESS REVIEW

During the three months ended 30 September 2004, the Group had achieved the following objectives:

- Forming a strategic partnership with Sigma-tau, one of the largest independent pharmaceutical companies in Italy through the subscription for the 57,000,000 new shares of the Company by Defiante Farmaceutica, Lda, a subsidiary of Sigma-tau. The investment was completed in August 2004, and the net proceeds from the subscription of HK\$11.19 million was received and is used for working capital of the Group.
- The Group has won a public tender for <Livaracine> in Shanghai, PRC. With over 20 million populations and fast growing economy, Shanghai is one of the fast growing and top five pharmaceutical markets in the PRC. Winning the tender presents a great opportunity for <Livaracine> to penetrate to one of few uncovered markets in the PRC.
- The Group has obtained an exclusive distribution rights on <Hibor> a “second generation” injectable low molecular weight heparin in pre-filled syringe form from a Spanish pharmaceutical company for PRC and Hong Kong market.
- The Group has completed and submitted the supplementary data for both Anti-fungus Peptide and Hemocoagulase to the State Food and Drug Administration of PRC (“SFDA”) for further review during the quarter. Approval of clinical study for both products is expected soon.
- The Group’s multi-center clinical study of <Yallaferon> for the treatment of cervical erosion has started to recruit patients during the quarter.





## PROSPECTS

The Group will continue to focus its efforts and resources on the following areas:

- Strengthen its strategic partnership with Sigma-tau to expand the Group's product portfolio.
- Intensify its marketing efforts for the three existing products in China by expanding its sales team and distribution network.
- Accelerate the in-house product development of Protein-free Calf Blood Extract Eye Gelatin and Hemocoagulase.
- Prepare the launch of license-in proprietary product <Irrordan Retard> in the PRC.
- Intensify the marketing of <ArginMax> and <Gliconorm> in Hong Kong.
- Registration of several license-in products in Hong Kong and the PRC.
- Pursue licensing opportunity for innovative products and/or technology from United States of America and Europe.

## SHARE OPTION

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company, among others, conditionally adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the prospectus of the Company dated 3 July 2002 (the "Prospectus").

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

Date of grant	Outstanding at 01.01.2004			Outstanding at 30.09.2004			Exercise period	Exercise price per share
	Granted	During the period Exercised	Cancelled	Lapsed	During the period Exercised	Cancelled		
<i>Category I: Directors</i>								
26.06.2002	1,600,000	-	-	-	-	1,600,000	26.06.2004– 25.06.2012	HK\$0.280
<i>Category II: Employees</i>								
26.06.2002	400,000	-	-	-	-	400,000	26.06.2004– 25.06.2012	HK\$0.280
	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>		

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).



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

Date of grant	Outstanding	During the period			Outstanding	Exercise period	Exercise price per share
	at 01.01.2004	Granted	Exercised	Cancelled	at 30.09.2004		
<i>Category I: Directors</i>							
13.01.2003	3,379,000	-	-	- (100,000)	3,279,000	13.07.2003- 12.01.2013	HK\$0.405
25.06.2004*	-	300,000	-	-	300,000	25.12.2004- 24.06.2014	HK\$0.218
<i>Category II: Employees</i>							
13.01.2003	550,000	-	-	-	550,000	13.07.2003- 12.01.2013	HK\$0.405
25.06.2004*	-	6,800,000	-	-	6,800,000	25.12.2004- 24.06.2014	HK\$0.218
	<u>3,929,000</u>	<u>7,100,000</u>	<u>-</u>	<u>- (100,000)</u>	<u>10,929,000</u>		

\* The options are vested in 2 tranches as to (i) 50% exercisable not less than six months from the date of grant but not more than ten years, i.e. during the period from 25 December 2004 to 24 June 2014 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than fifteen months from the date of grant but not more than ten years, i.e. during the period from 25 September 2005 to 24 June 2014 (both days inclusive).

Save as disclosed above, no option was granted, exercised or cancelled during the period. The share options are not recognized in the financial statements until they are exercised.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

At 30 September 2004, the interests and short positions of the Directors and chief executives in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

### Long positions in Shares

Name of director	Notes	Number of Shares held and nature of interest			Total	Percentage to issued share capital
		Personal Interest	Corporate Interest	Family Interest		
Lee Siu Fong	(1)	2,334,375	163,290,625	–	165,625,000	47.84%
Leelalertsuphakun Wanee	(2)	–	163,290,625	–	163,290,625	47.16%
Li Xiaoyi	(3)	–	–	16,000,000	16,000,000	4.62%

#### Notes:

- (1) 2,334,375 Shares are held personally by Lee Siu Fong ("Ms. Lee") and 163,290,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee and Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun").
- (2) 163,290,625 Shares are 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.
- (3) These shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Ms. Lue Shuk Ping, Vicky ("Ms. Lue"), the spouse of Li Xiaoyi ("Dr. Li"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.



### Long positions in underlying Shares of equity derivatives

Pursuant to the Pre-IPO Share Option Scheme, an executive Director was granted share options to subscribe for Shares of the Company, details of which as at 30 September 2004 were as follows:

Name	Date of grant	Exercise price	Exercise period (both dates inclusive)	Share options		Percentage to issued share capital
				outstanding as at 30.09.2004		
Lee Siu Fong	26.06.2002	HK\$0.280	26.06.2004– 25.06.2012	1,600,000		0.46%

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Pursuant to the Share Option Scheme, certain executive and independent non-executive Directors were granted share options on 13 January 2003 and 25 June 2004 to subscribe for Shares of the Company, details of which as at 30 September 2004 were as follows:

Name	Date of grant	Exercise price	Exercise period (both dates inclusive)	Share options		Percentage to issued share capital
				outstanding as at 01.01.2004	30.09.2004	
<i>Executive directors</i>						
<i>Leelalertsuphakun</i>						
Wanee	13.01.2003	HK\$0.405	13.07.2003– 12.01.2013	289,000	289,000	0.08%
Li Xiaoyi	13.01.2003	HK\$0.405	13.07.2003– 12.01.2013	2,890,000	2,890,000	0.83%
<i>Independent Non-executive Directors</i>						
Chan Yau Ching, Bob	13.01.2003	HK\$0.405	13.07.2003– 12.01.2013	100,000	100,000	0.03%
Chan Yau Ching, Bob	25.06.2004*	HK\$0.218	25.12.2004– 24.06.2014	–	300,000	0.09%

- \* The options are vested in 2 tranches as to (i) 50% exercisable not less than six months from the date of grant but not more than ten years, i.e. during the period from 25 December 2004 to 24 June 2014 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than fifteen months from the date of grant but not more than ten years, i.e. during the period from 25 September 2005 to 24 June 2014 (both days inclusive).

Save as disclosed in the section of "Share Option", no option granted under the Pre-IPO Share Option Scheme or the Share Option Scheme was exercised, cancelled or lapsed during the period.

#### Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares of equity derivatives	Aggregate in number	Percentage to issued share capital
Lee Siu Fong	165,625,000	1,600,000	167,225,000	48.30%
Leelalertsuphakun Wanee	163,290,625	289,000	163,579,625	47.25%
Li Xiaoyi	16,000,000	2,890,000	18,890,000	5.46%
Chan Yau Ching, Bob	–	400,000	400,000	0.12%

Saved as disclosed above, as at 30 September 2004, none of the Directors, chief executives or their associates had any personal, family, corporate or other beneficial interests of short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).



## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 2004, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Long positions in Shares

Name	Capacity	Number of Shares	Percentage to issued share capital
Huby Technology Limited	Beneficial owner	155,290,625	44.85%
Defiante Farmaceutica Lda	Beneficial owner	57,000,000	16.46%

Saved as disclosed above, as at 30 September 2004, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

### SPONSOR'S INTERESTS

As at 30 September 2004, the Company's continuing sponsor, Kingsway Capital Limited ("Kingsway") 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 13 February 2004 entered into between the Group and Kingsway, Kingsway has received and will receive a fee for acting as the Company's continuing sponsor for the period from 16 February 2004 to 31 December 2004 or until the sponsor agreement is terminated upon the terms and condition set out therein.

### COMPETING INTERESTS

None of the Directors or the initial 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

In the opinion of the Directors, the Company has complied with board practices and procedures as set out in Rule 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 30 September 2004.

## SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 30 September 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealings throughout the three months ended 30 September 2004.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The Committee has three members comprising three independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl. 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 nine months ended 30 September 2004.

As at the date of this report, the Board comprises the following directors:

*Executive directors:*

Ms. Lee Siu Fong (*Chairperson*)

Dr. Li Xiaoyi

Ms. Leelalertsuphakun Wanee

*Independent non-executive directors:*

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

Dr. Tsim Wah Keung, Karl

By order of the Board

**Lee Siu Fong**

*Chairperson*

Hong Kong, 5 November 2004