



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



Q1 05
First Quarterly Report 2005

* For identification purposes only

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 (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 ended 31 March 2005, together with the comparative unaudited consolidated figures for the corresponding period in 2004 as follows:

	<i>Notes</i>	For the three months ended	
		2005	2004
		HK\$'000	HK\$'000
			(Restated)
Turnover	(2)	8,841	6,211
Cost of sales		(2,804)	(2,180)
Gross profit		6,037	4,031
Other revenue		382	29
Selling and distribution expenses		(3,319)	(2,718)
Research and development expenses		(182)	(137)
Administrative expenses		(2,756)	(2,530)
Profit (loss) from operations		162	(1,325)
Finance costs		(134)	(145)
Profit (loss) before taxation		28	(1,470)
Taxation	(3)	11	2
Profit (loss) before minority interest		39	(1,468)
Minority interest		–	–
Net profit (loss) for the period		39	(1,468)
Dividends		–	–
		HK cents	HK cents
Earnings (loss) per share			
Basic	(4)	0.01	(0.51)
Diluted	(4)	0.01	(0.51)

Notes:

1. Basis of preparation

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has converged all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board at 1 January 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards and HKFRSs issued by the HKICPA, and the disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

The accounting policies which have material impacts on the Group are set out below:

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the income statement. HKFRS 2 has been applied retrospectively for all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2005.

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, leasehold land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease. HKAS 17 has been applied retrospectively.

The effect of adopting HKAS 17 and HKFRS 2 on the consolidated income statements for the period ended 31 March 2005 and 31 March 2004 and on the consolidated balance sheet as at 31 March 2005 and 31 March 2004 are shown below:

Effect of adopting HKAS 17 and HKFRS 2 on consolidated income statement:

	Three months ended 31 March 2005		Three months ended 31 March 2004	
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 17 HK\$'000	HKFRS 2 HK\$'000
(Increase) decrease in administrative expenses	8	(48)	8	(26)
Increase in taxation	(1)	–	(1)	–
Total increase (decrease) in profit	7	(48)	7	(26)
	<i>HK cent</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Increase (decrease) in basic earnings (loss) per share	–	(0.01)	–	(0.01)

Effect of adopting HKAS 17 and HKFRS 2 on consolidated balance sheet:

	31 March 2005		31 March 2004	
	HKAS 17	HKFRS 2	HKAS 17	HKFRS 2
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase (decrease) in assets				
Property, plant and machinery	(2,515)	–	(2,573)	–
Lease premium for land (current and non-current)	1,164	–	1,191	–
Increase (decrease) in liabilities/equity				
Deferred tax liabilities	(203)	–	(209)	–
Employee share-based compensation reserve	–	303	–	129
Revaluation reserves	(1,235)	–	(1,235)	–
Exchange reserves	–	–	10	–
Accumulated losses	87	(303)	52	(129)

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except that certain presentation and disclosure of the accounts would be affected on the 2005 half year and annual reports.

2. Turnover

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

Business segments:

	Three months ended	
	31 March 2005	2004
	HK\$'000	HK\$'000
Proprietary products	6,339	4,497
License-in products	2,502	1,714
	8,841	6,211

Geographical segment:

During the period ended 31 March 2005 and 2004, more than 90% of the Group's turnover was derived from activities conducted in the People's Republic of China (the "PRC" or "China"), no geographical segmental information is presented.

3. Taxation

	Three months ended 31 March	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Current tax		
Hong Kong	—	—
PRC	—	—
	—	—
Deferred tax		
Credit of current period	11	2
Taxation attributable to the Group	11	2

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 2005(2004: Nil).

4. Earnings (loss) per share

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

	For the three months ended 31 March	
	2005	2004 (Restated)
Profit (loss):		
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	HK\$39,000	HK\$(1,468,000)
Number of shares of the Company (the "Shares"):		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	346,225,000	289,225,000
Effect of dilutive potential ordinary shares: Options and warrants	—	—
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	346,225,000	289,225,000

No diluted earnings (loss) per share in 2005 and 2004 have been presented because the exercise prices of the options and warrants were higher than the market price of the shares for the period.

5. Reserves

	Share premium	Merger difference	Revaluation reserve	Employee share-based compensation reserve	Exchange reserves	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	33,227	9,200	3,921	–	(99)	(26,681)	19,568
Adoption of HKFRS 2	–	–	–	255	–	(255)	–
Adoption of HKAS 17	–	–	(1,235)	–	–	71	(1,164)
At 1 January 2005, as restated	33,227	9,200	2,686	255	(99)	(26,865)	18,404
Employee share option benefits	–	–	–	48	–	–	48
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	–	(14)	–	(14)
Profit for the period	–	–	–	–	–	39	39
At 31 March 2005	33,227	9,200	2,686	303	(113)	(26,826)	18,477
At 1 January 2004	24,887	9,200	3,921	–	(14)	(23,413)	14,581
Adoption of HKFRS 2	–	–	–	103	–	(103)	–
Adoption of HKAS 17	–	–	(1,235)	–	10	45	(1,180)
At 1 January 2004, as restated	24,887	9,200	2,686	103	(4)	(23,471)	13,401
Employee share option benefits	–	–	–	26	–	–	26
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	–	(57)	–	(57)
Loss for the period	–	–	–	–	–	(1,468)	(1,468)
At 31 March 2004, as restated	24,887	9,200	2,686	129	(61)	(24,939)	11,902

6. Comparative figures

Certain comparative figures have been re-classified to conform with current period's presentation.

DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2005 (2004: Nil).

FINANCIAL REVIEW

The Group's unaudited consolidated turnover for the three months ended 31 March 2005 reached a new high of approximately HK\$8.84 million, representing an increase of 42.34% over the corresponding period of 2004 and an increase of 9.39% over last quarter. Despite downward price pressure, the Group's flagship product, <Livaracine> and <Yallaferon> achieved an increase of 27.53% and 11.18% in turnover respectively over the corresponding period of last year fuelled by a significant growth of 52.91% and 83.81% in volume respectively. Sales of the Group's license-in product <Carnitene> also expanded markedly, registering an increase of 46.66% over the corresponding period of last year. <Livaracine>, <Carnitene> and <Yallaferon> contributed to 57.82%, 27.68% and 13.67% of total turnover respectively. The Group's overall gross profit margin had slightly been improved from 64.90% in 2004 to 68.28% this year because of increase of sales and reduction in production cost from economies of scales on maximizing production capacity.

Selling and distribution expenses to turnover ratio reduced from 43.76% in 2004 to 37.54% in quarter under review due to introduction of a more effective budgetary system.

The Group recorded profit results in the first quarter of 2005. Net profit for the period under review was HK\$39,000 representing a turn-around from net loss in last quarter and the corresponding period last year of HK\$629,000 and HK\$1,468,000 respectively. The achievement of profitability signified a breakthrough of the Group into a new era of growth in both revenue and profit and validation of the Group's strategy.

BUSINESS REVIEW

During the three months ended 31 March 2005, the Group has achieved the following objectives:

- Maintained the growth momentum in sales.
- Expanded the sales and marketing network.
- Completed the supplementary data for <Hemocoagulase> and made submission to the State Food and Drug Administration of the PRC.



- Submitted the registration application for <Hibor> in both China and Hong Kong.
- Submitted the registration application in Hong Kong for <Plixym>, <Clopi> and <Czartan>.
- The multi-center clinical trial of <Yallaferon> on treatment of cervicitis was progressing well. The participated centers have completed more than 50% of the enrollment for this 320 patients study and expected to complete by mid-year 2005.
- The clinical trial conducted to generate safety and efficacy data for the Group's in-house product <Protein-free Calf Blood Extract Eyg-gel> is making good progress ahead of schedule. The participated centers have completed more than 50% of the enrollment for 480 patients study and the study is recruiting rapidly and proceeding satisfactorily.
- The Group has obtained an exclusive distribution rights on <Vasdilal>, isosorbide mononitrate, from an Italian pharmaceutical company, Marvecs Services S.r.l. for China and Hong Kong market. <Vasdilal> is a type of vasodilator with effects on both arteries and veins and is indicated for the prevention and long-term treatment of angina pectoris associated with coronary artery disease.

PROSPECT

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

- Intensify its efforts on knowledge-level education and foundation for the Group's products.
- Strengthen its sales and marketing team to widen the Group's coverage and customer bases.
- Pursue innovative and proprietary technology for licensing from/with America and Europe.
- Forge closer partnership with Sigma-Tau to bring about the synergy between two companies.
- Conclude the clinical trial of <Protein-free Calf Blood Extract Eyg-gel> and make application for new drug certification.



- Conclude the clinical trial of <Yallaferon> on treatment of cervicitis and make application for new indication.
- Make submission of registration application in both China and Hong Kong for several license-in products.

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”). Movements of share option during the three months ended 31 March 2005 were as follows:

Grantees	Date of grant	Exercise period	Exercise price per share	Number of share options		
				Outstanding at 01.01.2005	Granted/ Exercised/ Lapsed during the period	Outstanding at 31.03.2005
		Note	HK\$			
<i>Director</i>						
Lee Siu Fong	26.06.2002	(1)	0.280	1,600,000	–	1,600,000
Leelalertsuphakun Wanee	13.01.2003	(2)	0.405	289,000	–	289,000
Li Xiaoyi	13.01.2003	(2)	0.405	2,890,000	–	2,890,000
Chan Yau Ching, Bob	13.01.2003	(2)	0.405	100,000	–	100,000
	25.06.2004	(3)	0.218	300,000	–	300,000
<i>Sub-total of Directors</i>				5,179,000	–	5,179,000
<i>Employees</i>						
	26.06.2002	(1)	0.280	400,000	–	400,000
	13.01.2003	(2)	0.405	550,000	–	550,000
	25.06.2004	(3)	0.218	6,800,000	–	6,800,000
<i>Sub-total of employees</i>				7,750,000	–	7,750,000
<i>Grand total</i>				12,929,000	–	12,929,000

Notes:

- (1) 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 26.06.2004 to 25.06.2012 (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 26.06.2005 to 25.06.2012 (both days inclusive).
- (2) The options 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 13.07.2003 to 12.01.2013 (both days inclusive).
- (3) 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 25.12.2004 to 24.06.2014 (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 25.09.2005 to 24.06.2014 (both days inclusive).
- (4) No option was granted, exercised or cancelled during the period.

Saved as disclosed above, as at 31 March 2005, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31 March 2005, the following Directors and chief executives and their associates had interest 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 Securities and Futures Ordinance (the "SFO")) which were required:

- (a) pursuant to Divisions 7 and 8 of part XV of the SFO, to be notified to the Company and the Stock Exchange; or
- (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or
- (c) pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.



1. Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

Name	Capacity and nature	Notes	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	163,290,625	165,625,000	47.84
Leelalertsuphakun Wanee	Interest of corporation	(i)	163,290,625	163,290,625	47.16
Li Xiaoyi	Interest of spouse	(ii)	16,000,000	16,000,000	4.62

Notes:

- (i) 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 Siu Fong and Ms. Leelalertsuphakun Wanee.
- (ii) 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.



(b) *Share options*

Name	Capacity and nature	Number of options held	Number of underlying shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Chan Yau Ching, Bob	Beneficial owner	400,000	400,000
		5,179,000	5,179,000

(c) *Aggregate long positions in the Shares and the underlying Shares*

Name	Number of Shares	Number of underlying Shares	Aggregate in number	% of 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

2. Short positions

No short positions of Directors and chief executives in the Shares or underlying Shares of the Company or any of its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors and Chief Executives' Interests" above, at no time during the period under review were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, 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) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

1. Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

Name	Capacity and nature	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner	155,290,625	44.85
Defiante Farmaceutica, Lda	Beneficial owner	57,000,000	16.46
High Knowledge Investments Limited (<i>note</i>)	Beneficial owner	16,000,000	4.62
Lue Shuk Ping, Vicky (<i>note</i>)	Interest in corporation	16,000,000	4.62

Note: These shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li's spouse, Ms. Lue.

(b) Underlying shares

Name	Capacity and nature	Kind of underlying shares	Number of underlying Shares
Defiante Farmaceutica, Lda	Beneficial owner	Unlisted warrants	69,245,000
Lue Shuk Ping, Vicky (<i>note</i>)	Interest of spouse	Share option	2,890,000

Note: Dr. Li, husband of Ms. Lue, has been granted share option to subscribe for 2,890,000 Shares under Share Option Scheme, therefore Ms. Lue is deemed to be interested in such number of Shares.

(c) *Aggregate long positions in the Shares and the underlying Shares*

Name	Number of Shares	Number of underlying Shares	Aggregate in number	% of issued share capital
Huby Technology Limited	155,290,625	–	155,290,625	44.85
Defiante Farmaceutica, Lda	57,000,000	69,245,000	126,245,000	36.46
High Knowledge Investments Limited	16,000,000	–	16,000,000	4.62
Lue Shuk Ping, Vicky	16,000,000	2,890,000	18,890,000	5.46

2. Short positions

No short positions of other persons and substantial shareholders in the Share or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 31 March 2005, so far as is known to the Directors, no person was 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.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the period under review.

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 of the GEM Listing Rules throughout the three months ended 31 March 2005.



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.

The audit committee has reviewed with management and auditors this unaudited quarterly report for the period ended 31 March 2005 before recommending it to the Board for approval.

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 2005.

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 Wancee

Non-executive director:

Dr. Mauro Bove

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, 12 May 2005