



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

06
Third Quarterly Report



* 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 2006, together with the comparative unaudited consolidated figures for the corresponding period in 2005 as follows:

| | Notes | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|-------|--|------------------|---|------------------|
| | | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Turnover | (2) | 11,629 | 10,160 | 31,021 | 29,568 |
| Cost of sales | | (4,532) | (3,363) | (11,634) | (9,593) |
| Gross profit | | 7,097 | 6,797 | 19,387 | 19,975 |
| Other revenue | | 217 | 309 | 848 | 1,062 |
| Selling and distribution expenses | | (3,611) | (4,060) | (10,561) | (11,516) |
| Research and development expenses | | (252) | (217) | (797) | (639) |
| Administrative expenses | | (3,450) | (2,723) | (10,170) | (8,401) |
| (Loss) profit from operations | | 1 | 106 | (1,293) | 481 |
| Finance costs | | (192) | (84) | (466) | (323) |
| (Loss) profit before taxation | | (191) | 22 | (1,759) | 158 |
| Taxation | (3) | (117) | 7 | (210) | 33 |
| (Loss) profit attributable to shareholders | | (308) | 29 | (1,969) | 191 |
| Dividends | | - | - | - | - |
| | | HK cents | HK cents | HK cents | HK cents |
| (Loss) earnings per share | | | | | |
| Basic | (4) | (0.09) | 0.01 | (0.57) | 0.06 |
| Diluted | (4) | N/A | N/A | N/A | N/A |

NOTES:**1. Basis of preparation and principal accounting policies**

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, Accounting Standards and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

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 2005.

The consolidated results for the nine months ended 30 September 2006 have not been audited by the Company's auditors, 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 | |
|----------------------|--|------------------|---|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Proprietary products | 6,354 | 6,798 | 17,547 | 19,957 |
| License-in products | 5,275 | 3,362 | 13,474 | 9,611 |
| | 11,629 | 10,160 | 31,021 | 29,568 |

Geographical segments

During the period ended 30 September 2006 and 2005, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

3. Taxation

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|------------------------------------|--|------------------|---|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Current tax | | | | |
| PRC income tax | (128) | – | (244) | – |
| Deferred tax | | | | |
| Credit of current period | 11 | 7 | 34 | 33 |
| Taxation attributable to the Group | (117) | 7 | (210) | 33 |

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit for the period. PRC income tax is calculated at the rates applicable in the PRC.

4. (Loss) earnings per share

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

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|-------------|---|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net (loss) profit for the period for the purpose of basic (loss) earnings per share | HK\$(308,000) | HK\$29,000 | HK\$(1,969,000) | HK\$191,000 |
| Number of shares: | | | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | 346,225,000 | 346,225,000 | 346,225,000 | 346,225,000 |

The diluted loss per share for the nine months ended 30 September 2006 is not presented as the potential ordinary shares in respect of outstanding share options and warrants are anti-dilutive. No diluted earnings per share for previous period in 2005 has been presented as the exercise prices of the outstanding share options and warrants are higher than the market price of shares.

5. Share capital and reserves

| | Share capital | Share premium | Merger difference | Revaluation reserve | Share-based compensation reserve | Exchange reserve | Accumulated losses | Total |
|---|------------------|------------------|----------------------|------------------------|--|---------------------|-----------------------|-----------------|
| | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> |
| At 1 January 2006 | 17,311 | 32,496 | 9,200 | 3,106 | 443 | 183 | (27,079) | 35,660 |
| Share option benefits | - | - | - | - | 164 | - | - | 164 |
| Exchange rate adjustment not recognized in consolidated income statement | - | - | - | 67 | - | 315 | - | 382 |
| Loss for the period | - | - | - | - | - | - | (1,969) | (1,969) |
| At 30 September 2006 | 17,311 | 32,496 | 9,200 | 3,173 | 607 | 498 | (29,048) | 34,237 |
| At 1 January 2005 | 17,311 | 33,227 | 9,200 | 3,028 | 255 | (62) | (27,232) | 35,727 |
| Warrant issue net expenses | - | (731) | - | - | - | - | - | (731) |
| Share option benefits | - | - | - | - | 131 | - | - | 131 |
| Exchange rate adjustment not recognised in consolidated income statement | - | - | - | 75 | - | 258 | - | 333 |
| Profit for the period | - | - | - | - | - | - | 191 | 191 |
| At 30 September 2005 | 17,311 | 32,496 | 9,200 | 3,103 | 386 | 196 | (27,041) | 35,651 |

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: Nil).

BUSINESS REVIEW AND PROSPECTS

Business review

For the third quarter of 2006, performance of the Group showed an improvement compared with the second quarter. Turnover for the three months ended 30 September 2006 was HK\$11.6 million, an increase of 14% from the same period last year and up 30.4% from the last quarter. The increase was mainly attributable to the increase in sales of *Carnitene* by HK\$1.9 million during the quarter. Loss attributable to shareholders reduced from HK\$1,445,000 for the second quarter to HK\$308,000 for the third quarter of 2006, a reduction of 79%.

Turnover for the nine months ended 30 September 2006 was HK\$31 million, an increase of 5% from the same period last year. The increase was mainly due to the significant increase in sales of *Carnitene* by 45% during the period which was offset by decrease in sales of proprietary products by 12% during the period.

Gross margins for the nine months ended 30 September 2006 was 62.5%, a decline from 67.6% for the same period last year. This was caused by a markedly increase in sales of *Carnitene* which has a relatively lower gross margin compared with other proprietary products.

The administrative expenses for the nine months ended 30 September 2006 increased by HK\$1.7 million over same period last year. The increase was mainly attributable to increase in staff cost in preparation for the launch of new proprietary products.

Finance cost for the nine months ended 30 September 2006 increased by HK\$143,000 from same period last year as bank borrowing increased during the period.

Prospects

During the period under review, the Group achieved two significant milestones in product development and manufacturing. The Group has obtained from the SFDA of China a Good Manufacturing Practices (GMP) Certificate related to the plant facility and quality assurance system for production of the "Small Volume Parenteral Solutions" which brings the GMP certified workshops of the Group to three. The increased manufacturing capability will maximize the Group's production capability and reduce the overall product cost in future.

The Group has successfully obtained the marketing authorization of Slounase® (Hemocoagulase) from SFDA and the product has been formally launched at the end of September with excellent market reception. The Directors expect that the launch will significantly improve the revenue and profitability of the Group.

SHARE OPTION SCHEME

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.

Movements of share option during period ended 30 September 2006 were as follows:

| Grantees | Date of Grant | Outstanding at 1.1.2006 | Number of share options | | | Outstanding at 30.09.2006 |
|--|---------------|-------------------------|-------------------------|-------------------------|-----------|---------------------------|
| | | | Granted | Exercised/ cancelled | Lapsed | |
| Directors | | | | | | |
| Lee Siu Fong | 26.06.2002 | 1,600,000 | – | – | – | 1,600,000 |
| Leelalertsuphakun Wanee | 13.01.2003 | 289,000 | – | – | – | 289,000 |
| Li Xiaoyi | 13.01.2003 | 2,890,000 | – | – | – | 2,890,000 |
| Mauro Bove | 11.07.2005 | 500,000 | – | – | – | 500,000 |
| | 02.06.2006 | – | 500,000 | – | – | 500,000 |
| Chan Yau Ching, Bob | 13.01.2003 | 100,000 | – | – | – | 100,000 |
| | 25.06.2004 | 300,000 | – | – | – | 300,000 |
| | 11.07.2005 | 100,000 | – | – | – | 100,000 |
| Lam Yat Cheong | 11.07.2005 | 300,000 | – | – | – | 300,000 |
| Tsim Wah Keung, Karl | 11.07.2005 | 300,000 | – | – | – | 300,000 |
| <i>Sub-total of Directors</i> | | 6,379,000 | 500,000 | – | – | 6,879,000 |
| Employees | | | | | | |
| | 26.06.2002 | 50,000 | – | – | – | 50,000 |
| | 13.01.2003 | 400,000 | – | – | – | 400,000 |
| | 25.06.2004 | 6,250,000 | – | – | (300,000) | 5,950,000 |
| | 11.07.2005 | 3,750,000 | – | – | – | 3,750,000 |
| Consultant | 02.06.2006 | – | 500,000 | – | – | 500,000 |
| <i>Sub-total of employees and consultant</i> | | 10,450,000 | 500,000 | – | (300,000) | 10,650,000 |
| Grand total | | 16,829,000 | 1,000,000 | – | (300,000) | 17,529,000 |

Notes:

1. Particulars of share options:

| Date of Grant | Exercise period | Exercise price per share HK\$ |
|----------------------|---|--|
| 26.06.2002 | (i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012 | 0.280 |
| 13.01.2003 | 13.07.2003-12.01.2013 | 0.405 |
| 25.06.2004 | (i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014 | 0.218 |
| 11.07.2005 | (iii) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (iv) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015 | 0.159 |
| 02.06.2006 | (v) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (vi) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016 | 0.175 |

Saved as disclosed above, as at 30 September 2006, 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 EXECUTIVE'S INTERESTS

As at 30 September 2006, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

1. Long positions

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

| Name | Capacity and nature | Notes | Number of shares | % of issued share capital | |
|----------------------------|-------------------------|-------|---------------------|---------------------------------|-------|
| | | | | Total | |
| Lee Siu Fong | Beneficial owner | | 2,334,375 | 165,625,000 | 47.84 |
| | Interest of corporation | (i) | <u>163,290,625</u> | | |
| Leelalertsuphakun Wanee | Beneficial owner | | 1,140,000 | 164,430,625 | 47.49 |
| | Interest of corporation | (i) | <u>163,290,625</u> | | |
| 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 Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). 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 |
| Mauro Bove | Beneficial owner | 1,000,000 | 1,000,000 |
| Chan Yau Ching, Bob | Beneficial owner | 500,000 | 500,000 |
| Lam Yat Cheong | Beneficial owner | 300,000 | 300,000 |
| Tsim Wah Keung, Karl | Beneficial owner | 300,000 | 300,000 |
| | | 6,879,000 | 6,879,000 |

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

| Name | Number of Shares | Number of underlying Shares | Aggregate in number |
|-------------------------|------------------|-----------------------------|---------------------|
| Lee Siu Fong | 165,625,000 | 1,600,000 | 167,225,000 |
| Leelalertsuphakun Wanee | 164,430,625 | 289,000 | 164,719,625 |
| Li Xiaoyi | 16,000,000 | 2,890,000 | 18,890,000 |
| Mauro Bove | – | 1,000,000 | 1,000,000 |
| Chan Yau Ching, Bob | – | 500,000 | 500,000 |
| Lam Yat Cheong | – | 300,000 | 300,000 |
| Tsim Wah Keung, Karl | – | 300,000 | 300,000 |

2. Short positions

No short positions of Directors and chief executive in the Share or underlying Shares of the Company and 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 Executive's Interests" above, at no time during the nine months ended 30 September 2006 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 THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 2006, the following 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 | Notes | 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 | Beneficial owner | (i) | 16,000,000 | 4.62 |
| Lue Shuk Ping, Vicky | Interest in corporation | (i) | 16,000,000 | 4.62 |

(b) Underling shares

| Name | Capacity and nature | Notes | Nature of Underlying shares | Number of underlying Shares |
|----------------------------|---------------------|-------|-----------------------------|-----------------------------|
| Defiante Farmaceutica, Lda | Beneficial owner | | Unlisted warrants | 69,245,000 |
| Lue Shuk Ping, Vicky | Interest of spouse | (ii) | Share Options | 2,890,000 |

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

| Name | Number of Shares | Number of underlying Shares | Aggregate in number |
|------------------------------------|---------------------|-----------------------------------|------------------------|
| Huby Technology Limited | 155,290,625 | – | 155,290,625 |
| Defiante Farmaceutica, Lda | 57,000,000 | 69,245,000 | 126,245,000 |
| High Knowledge Investments Limited | 16,000,000 | – | 16,000,000 |
| Lue Shuk Ping, Vicky | 16,000,000 | 2,890,000 | 18,890,000 |

Notes:

- (i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (ii) Dr. Li Xiaoyi, 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.

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 30 September 2006, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company listed securities during the nine months ended 30 September 2006.

LEE'S PHARM.

李氏大藥廠

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 nine months ended 30 September 2006.

AUDIT COMMITTEE

An audit committee was set up with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

The audit committee has reviewed with the management and auditors this unaudited quarterly report for the nine months ended 30 September 2006 before recommending it to the Board for approval.



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

Executive directors:

Ms. Lee Siu Fong (*Chairperson*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

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, 13 November 2006

