



Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8221)

07

FIRST QUARTERLY REPORT

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 2007, together with the comparative unaudited consolidated figures for the corresponding period in 2006 as follows:

	Notes	For the three months ended 31 March	
		2007 HK\$'000	2006 HK\$'000
Turnover	(2)	13,321	10,477
Cost of sales		(4,194)	(4,288)
Gross profit		9,127	6,189
Other revenue		116	264
Selling and distribution expenses		(4,446)	(3,223)
Research and development expenses		(337)	(261)
Administrative expenses		(3,310)	(2,965)
Profit from operations		1,150	4
Finance costs		(256)	(149)
Profit (loss) before taxation		894	(145)
Taxation	(3)	(33)	(71)
Profit (loss) attributable to shareholders		861	(216)
Dividends		–	–
		<i>HK cents</i>	<i>HK cents</i>
Earnings (loss) per share			
Basic	(4)	0.25	(0.06)
Diluted	(4)	0.24	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 2006.

The consolidated results for the three months ended 31 March 2007 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 31 March	
	2007 HK\$'000	2006 HK\$'000
Proprietary products	7,521	5,507
License-in products	5,800	4,970
	13,321	10,477

Geographical segments

During the period ended 31 March 2007 and 2006, 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 31 March	
	2007 HK\$'000	2006 HK\$'000
Current tax		
PRC income tax	45	82
Deferred tax credit	(12)	(11)
Taxation attributable to the Group	33	71

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. 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	
	2007	2006
Net profit(loss) attributable to shareholders for the purpose of basic and diluted earnings(loss) per share	HK\$861,000	HK\$(216,000)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings(loss) per share	346,225,000	346,225,000
Effect of dilutive potential ordinary shares: options and warrants	12,031,265	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings(loss) per share	358,256,265	N/A

The diluted loss per share for the three months ended 31 March 2006 is not presented as the potential ordinary shares in respect of outstanding share options and warrants are anti-dilutive.

5. Share capital and reserves

	Share capital	Share premium	Merger difference	Revaluation reserve	Employee share-based compensation reserve	Exchange reserve	Accumulated losses	Total
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
At 1 January 2007	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
Employee share option benefits	-	-	-	-	54	-	-	54
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	33	-	142	-	175
Profit for the period	-	-	-	-	-	-	861	861
At 31 March 2007	17,311	32,496	9,200	3,270	720	969	(29,687)	34,279
At 1 January 2006	17,311	32,496	9,200	3,106	443	183	(27,079)	35,660
Employee share option benefits	-	-	-	-	55	-	-	55
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	6	-	26	-	32
Loss for the period	-	-	-	-	-	-	(216)	(216)
At 31 March 2006	17,311	32,496	9,200	3,112	498	209	(27,295)	35,531

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007 (2006: Nil).

BUSINESS REVIEW

The Group started to see that its strategy of growing through product comes to fruition in the first quarter, 2007, achieving a profit after tax of HK\$861,000. This is a breakthrough for the group, signifying completion of turnaround toward profitability.

The significant improvement in bottom line was a result of continuing increase in sales. For the first quarter of 2007, turnover was HK\$13 million, an increase of HK\$2.8 million or 27% from the same period last year and an increase of more than 6% over last quarter. All four products of the Group, namely *Slounase*[®], *Carnitene*[®], *Livaracine*[®], *Yallaferon*[®] registered growth in sales, with first two products displaying impressive momentum. For the newly launched product *Slounase*[®], the sales volume in the first quarter increased more than 105% compared with the sales volume of last quarter of 2006.

Improvement in gross profit margin helped the bottom line too. Gross profit margin was 68.5% for the period under review, a 16% increase compared with 59.1% for the first quarter last year. The increase in sales of proprietary products accounted for the increase in gross profit margin as the gross profit margin of proprietary products is relatively higher than that of licensed-in products. The increase was also attributable to the reduction in purchase cost of *Carnitene*[®] upon renewal of the distribution agreement.

Distribution expenses to turnover ratio increased slightly from 31% for the first quarter last year to 33% for this quarter. This was mainly due to more marketing effort made for the launch of new proprietary product *Slounase*[®].

During the period under review, the Group has started the patient enrollment for its clinical study of Horus[®]S stent and Challenger balloon from IBS company of Italy. The study has been progressed well and it is on target to complete the patient enrollment by the end of April 2007. In addition, the Group signed a licensing agreement with Fidia, an Italian pharmaceutical company to register, distribute and market two products in China. This is a further example of the Group's relentless efforts to expand its pipelines through global partnership.

PROSPECTS

During the period under review, the Group had participated in tenders of many important provinces such as Guangdong, Shanghai, Fujian, Anhui, Shangxi, Yunan, Jianxi and Liaoling with satisfactory results. As tenders in China are moving toward province-based centralization, the successful listing of the Group's all four products on the procurement list of the provinces provides a solid foundation for the continuing growth of the Group's sales in China.

The sales of *Slounase*[®] in the first quarter was in line with the Group's expectation. With the majority of tenders for 2007 are coming into effect in the second quarter of 2007, we are confident that the growth of *Slounase*[®] sales will remain in an accelerated pace and contribute more and more to the profitability of the Group.

With the completion of patient enrollment for Horus[®]S stent and Challenger balloon, the Group will soon submit the registration application for Challenger balloon which could be launched into the market by end of 2007, contributing additional revenue to 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 the share option during the period ended 31 March 2007 were as follows:

Grantees	Date of Grant	Outstanding at 1.1.2007	Number of share options			Outstanding at 31.3.2007
			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>		6,879,000	-	-	-	6,879,000
Employees						
	26.06.2002	50,000	-	-	-	50,000
	13.01.2003	400,000	-	-	-	400,000
	25.06.2004	5,950,000	-	-	(100,000)	5,850,000
	11.07.2005	3,750,000	-	-	-	3,750,000
Consultant	02.06.2006	500,000	-	-	-	500,000
<i>Sub-total of employee and consultant</i>		10,650,000	-	-	(100,000)	10,550,000
Grand total		17,529,000	-	-	(100,000)	17,429,000

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	0.280
	(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	
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	0.218
	(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	
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	0.159
	(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	
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	0.175
	(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	

Saved as disclosed above, as at 31 March 2007, 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 31 March 2007, 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	
				Total	issued share capital
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	<u>163,290,625</u>	165,625,000	47.84
Leelalertsuphakun Wanee	Beneficial owner		1,160,000		
	Interest of corporation	(i)	<u>163,290,625</u>	164,450,625	47.50
Li Xiaoyi	Beneficial owner		80,000		
	Interest of spouse	(ii)	<u>16,000,000</u>	16,080,000	4.64

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	164,450,625	289,000	164,739,625
Li Xiaoyi	16,080,000	2,890,000	18,970,000
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 Shares 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 three months ended 31 March 2007 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 31 March 2007, 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 and nature	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
	Interest of spouse	(ii)	80,000	0.02

(b) Underlying 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	16,080,000	2,890,000	18,970,000

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 options to subscribe for 2,890,000 Shares under Share Option Scheme and has beneficial interest in 80,000 Shares and 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 Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 31 March 2007, 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 three months ended 31 March 2007.

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 three months ended 31 March 2007.

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 three months ended 31 March 2007 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, 11 May 2007