



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: 0221)

First Quarterly Report 2008



* For identification purposes only

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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 2008, together with the comparative unaudited consolidated figures for the corresponding period in 2007 as follows:

	<i>Notes</i>	For the three months ended 31 March	
		2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Turnover	(2)	22,513	13,321
Cost of sales		(6,595)	(4,194)
Gross profit		15,918	9,127
Other revenue		559	116
Selling and distribution expenses		(6,935)	(4,446)
Research and development expenses		(317)	(337)
Administrative expenses		(4,304)	(3,310)
Profit from operations		4,921	1,150
Finance costs		(108)	(256)
Profit before taxation		4,813	894
Taxation	(3)	(620)	(33)
Net profit attributable to shareholders		4,193	861
Dividends		–	–
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	(4)	1.01	0.25
Diluted	(4)	1.00	0.24

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 2007.

The consolidated results for the three months ended 31 March 2008 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	
	2008 HK\$'000	2007 HK\$'000
Proprietary products	13,714	7,521
License-in products	8,799	5,800
	22,513	13,321

Geographical segments

During the period ended 31 March 2008 and 2007, 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	
	2008 HK\$'000	2007 HK\$'000
Current tax		
The PRC	540	45
Deferred tax		
Provision (credit) of current period	80	(12)
Taxation attributable to the Group	620	33

Hong Kong Profits Tax has not been provided as the Group had no assessable profit in Hong Kong for the period.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

4. Earnings per share

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

	For the three months ended 31 March	
	2008 HK\$'000	2007 HK\$'000
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	4,193,000	861,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	414,209,615	346,225,000
Effect of dilutive potential ordinary shares: options and warrants	6,737,669	12,031,265
Weighted average number of ordinary shares for the purpose of diluted earnings per share	420,947,284	358,256,265

5. Share capital and reserves

	Share capital	Share premium	Merger difference	Revaluation reserve	Employee 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 2008	20,656	44,154	9,200	3,463	851	1,679	(19,178)	60,825
Employee share								
option benefits	-	-	-	-	80	-	-	80
Exercise of share options	75	278	-	-	(56)	-	-	297
Exchange rate adjustment								
not recognized in								
consolidated income								
statement	-	-	-	130	-	577	-	707
Net profit for the period	-	-	-	-	-	-	4,193	4,193
At 31 March 2008	20,731	44,432	9,200	3,593	875	2,256	(14,985)	66,102
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
Net profit for the period	-	-	-	-	-	-	861	861
At 31 March 2007	17,311	32,496	9,200	3,270	720	969	(29,687)	34,279

Final dividend for the year ended 31 December 2007 of HK\$3,319,000 was paid on 7 May 2008. The final dividend is not included as a dividend payable in the consolidated balance sheet as at 31 March 2008.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2008 (2007: Nil).

BUSINESS REVIEW

The growth momentum of the Group continued in the first quarter of 2008. Turnover increased by HK\$9 million or 69% compared with same period last year to HK\$22.5 million. Net profit after tax for the current period was HK\$4.19 million, a jump of 387% compared with the same period in 2007 and up 8.3% from the fourth quarter of 2007.

The continuing and significant increase in turnover and profit in the first quarter of 2008 were attributed to the robust sales performance of the Group's three existing products. Sales of the newly launched product *Slounase*[®] kept going strong with turnover increased by 447% from the same period last year and up 16% compared with the fourth quarter of 2007. *Carnitene*[®] and *Livaracine*[®] maintained its significant growth momentum in the first quarter of 2008 with increase of sales by 47% and 29% respectively compared with the same period in 2007.

The gross profit margin for the first quarter of 2008 also improved to 70.7% from 68.5% for the same period in 2007. The higher margin was achieved primarily due to increase in sales of the newly launched proprietary product *Slounase*[®], which has a relatively higher gross profit margin compared with license-in products.

Selling expenses to turnover ratio continued its decreasing trend and dropped to 30.8% for the first quarter of 2008 from 33.4% for the same period in 2007. Overall significant increase in sales helped to drive the improvement in marketing and sales efficiency.

During the period under review, the Group further increased its commitment to drug research and development. Two clinical studies were initiated in the first quarter of 2008 which involves 13 centers and 9 centers respectively in China. As to date, the Group has 19 products under different development stages with four clinical studies on going. One new member was added to the group's ever expanded product pipeline when the Group signed a distribution agreement with Switzerland company Helsinn for *Gelclair*[®], a cancer supportive care product.

PROSPECTS

We remain confident that the growth momentum of the Group will continue throughout the year and beyond. Both the newly launched product *Sloumase*[®] and licensed product *Carnitene*[®] will further contribute to the increase in growth rate.

In addition, during the period under review, the Group held four seminars in Guangzhou, Hangzhou and Beijing with speakers from local and overseas experts to promote the new product *Iron Proteinsuccinylate Oral Solution*. Over 500 doctors attended the four seminars which has significantly enhanced the product profile and awareness. We expect that the sales of the new product will accelerate in the remaining of the year and contribute to the overall growth of the Group in 2008.

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 2008 were as follows:

Grantees	Date of Grant	Outstanding at 1.1.2008	Number of share options			Outstanding at 31.3.2008
			Granted	Exercised	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
Lam Yat Cheong	11.07.2005	300,000	-	-	-	300,000
Tsim Wah Keung, Karl	11.07.2005	300,000	-	-	-	300,000
Sub-total of Directors		6,379,000	-	-	-	6,379,000

Grantees	Date of Grant	Outstanding at 1.1.2008	Number of share options			Outstanding at 31.3.2008
			Granted	Exercised	Lapsed	
Employees	26.06.2002	50,000	-	(50,000)	-	-
	13.01.2003	400,000	-	(100,000)	-	300,000
	25.06.2004	5,650,000	-	(600,000)	-	5,050,000
	11.07.2005	3,400,000	-	(750,000)	-	2,650,000
	02.01.2008	-	1,355,000	-	-	1,355,000
Consultant	02.06.2006	500,000	-	-	-	500,000
	02.01.2008	-	2,000,000	-	-	2,000,000
Sub-total of employees and consultant		10,000,000	3,355,000	(1,500,000)	-	11,855,000
Grand total		16,379,000	3,355,000	(1,500,000)	-	18,234,000

Notes:

I. Particulars of share options:

Date of Grant	Exercise period	Exercise price per share <i>HK\$</i>
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	(i) 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
	(ii) 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	(i) 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
	(ii) 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	

Date of Grant	Exercise period	Exercise price per share <i>HK\$</i>
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008- 01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	0.492

Save as disclosed above, as at 31 March 2008, 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.

The fair value of the total options granted in the period measured as at the date of grant on 2 January 2008 was HK\$1,141,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 97.55 per cent;
2. expected annual dividend yield of 1.7 per cent;
3. the estimated expected life of the options granted during the year is 10 years; and
4. the quoted interest rate for the Exchange Fund Notes with maturity in 2018 was 3.28 per cent. which was adopted to calculate the fair value of options granted on 2 January 2008.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 March 2008, 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 issued share capital
			of shares	Total	
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	128,290,625	130,625,000	31.50
Leelalertsuphakun Wanee	Beneficial owner		2,565,000		
	Interest of corporation	(i)	128,290,625	130,855,625	31.56
Li Xiaoyi	Beneficial owner		35,080,000		
	Interest of spouse	(ii)	16,000,000	51,080,000	12.32
Chan Yau Ching, Bob	Beneficial owner		500,000	500,000	0.12

Notes:

- (i) 128,290,625 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
Lam Yat Cheong	Beneficial owner	300,000	300,000
Tsim Wah Keung, Karl	Beneficial owner	300,000	300,000
		6,379,000	6,379,000

(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	130,625,000	1,600,000	132,225,000
Leelalertsuphakun Wanee	130,855,625	289,000	131,144,625
Li Xiaoyi	51,080,000	2,890,000	53,970,000
Chan Yau Ching, Bob	500,000	–	500,000
Mauro Bove	–	1,000,000	1,000,000
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 period ended 31 March 2008 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 2008, 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		120,290,625	29.01
Defiante Farmaceutica, Lda	Beneficial owner		123,850,000	29.87
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.86
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.86
	Interest of spouse	(ii)	35,080,000	8.46

(b) Underlying shares

Name	Capacity and nature	Notes	Nature of underlying shares	Number of underlying Shares
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	120,290,625	–	120,290,625
Defiante Farmaceutica, Lda	123,850,000	–	123,850,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,080,000	2,890,000	53,970,000

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) The Shares and share option are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

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.

Save as disclosed above, as at 31 March 2008, 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 2008.

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 2008.

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 2008 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 (*Chairman*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

Non-executive director:

Mr. 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

Chairman

Hong Kong, 14 May 2008