



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: 9231)

Third Quarterly Report 2008



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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”) is pleased to announce 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 2008, together with the comparative unaudited consolidated figures for the corresponding period in 2007 as follows:

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Turnover	(2)	34,977	19,825	89,760	51,486
Cost of sales		(10,595)	(5,929)	(26,352)	(15,839)
Gross profit		24,382	13,896	63,408	35,647
Other revenue		386	(80)	1,573	355
Selling and distribution expenses		(9,860)	(5,628)	(26,102)	(15,792)
Research and development expenses		(527)	(349)	(1,325)	(1,056)
Administrative expenses		(5,260)	(3,748)	(14,375)	(10,213)
Profit from operations		9,121	4,091	23,179	8,941
Finance costs		(104)	(201)	(371)	(697)
Profit before taxation		9,017	3,890	22,808	8,244
Taxation	(3)	(679)	(484)	(2,106)	(745)
Profit attributable to shareholders		8,338	3,406	20,702	7,499
Dividends	(4)	–	–	2,074	–
Earnings per share		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Basic	(5)	2.01	0.96	4.99	2.15
Diluted	(5)	1.98	0.94	4.91	2.11

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 except as described below.

For the current period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA which are effective for accounting period beginning on or after 1 January 2008. The adoption of the new interpretations has no material effects on how the results and financial position for the current or prior accounting periods are prepared and presented.

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not early applied the following new revised HKFRSs relevant to the condensed consolidated financial statements that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 Amendment	Share-based Payment Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combination ²
HKFRS 8	Operating Segments ¹
HKAS 1 and HKAS 32 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 October 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

The consolidated results for the nine months ended 30 September 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 30 September		For the nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Proprietary products	19,363	11,291	51,794	28,722
License-in products	15,614	8,534	37,966	22,764
	34,977	19,825	89,760	51,486

Geographical segments

During the period ended 30 September 2008 and 2007, 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	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Current tax				
The PRC	399	370	1,582	654
Deferred tax				
Provision of current period	280	114	524	91
Taxation attributable to the Group	679	484	2,106	745

Hong Kong Profits Tax has not been provided as the Group had no estimated 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. Dividend

An interim dividend of HK\$0.005 per share, totalling HK\$2,074,000 for the six months ended 30 June 2008 was declared on 12 August 2008 and paid on 18 September 2008.

The Board does not recommend the payment of other interim dividend for the third quarter of 2008.

5. Earnings per share

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

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK\$8,338,000	HK\$3,406,000	HK\$20,702,000	HK\$7,499,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	414,877,628	355,983,696	414,635,766	349,513,645
Effect of dilutive potential ordinary shares: options	7,060,452	6,777,810	6,706,091	5,394,211
Weighted average number of ordinary shares for the purpose of diluted earnings per share	421,938,080	362,761,506	421,341,857	354,907,856

6. Share capital and reserves

	Share capital	Share premium	Merger difference	Share-based			Accumulated losses	Total
				Revaluation reserve	compensation reserve	Exchange reserve		
	<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 2008	20,656	44,154	9,200	3,463	851	1,679	(19,178)	60,825
Exercise of share options	88	329	-	-	(69)	-	-	348
Share option benefits	-	-	-	-	238	-	-	238
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	227	-	1,204	-	1,431
Profit for the period	-	-	-	-	-	-	20,702	20,702
2007 final dividend paid	-	-	-	-	-	-	(3,319)	(3,319)
2008 interim dividend paid	-	-	-	-	-	-	(2,074)	(2,074)
At 30 September 2008	20,744	44,483	9,200	3,690	1,020	2,883	(3,869)	78,151
At 1 January 2007	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
Share option benefits	-	-	-	-	170	-	-	170
Issue of new shares upon exercise of share options	42	167	-	-	(32)	-	-	177
Issue of new shares upon exercise of warrants	3,293	11,458	-	-	-	-	-	14,751
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	117	-	402	-	519
Profit for the period	-	-	-	-	-	-	7,499	7,499
At 30 September 2007	20,646	44,121	9,200	3,354	804	1,229	(23,049)	56,305

BUSINESS REVIEW AND PROSPECTS

Business Review

The Group had kept up the rapid pace of growth in the third quarter with substantial increase in both revenue and profit. Sales for the third quarter of 2008 was HK\$34.98 million, a 76% increase compared to HK\$19.9 million in the third quarter of 2007 and represented an 8% sequential increase over the second quarter of 2008. Profit after tax for the third quarter of 2008 was HK\$8.3 million, a 145% increase over the third quarter of 2007 and up 2% compared with the second quarter of 2008.

The Group's revenue for the nine months ended 30 September 2008 reached a record high of HK\$89.8 million, an increase of 74% over the same period last year. Profit after tax for the nine months period of 2008 also attained a new height of HK\$20.7 million, representing a 176% increase compared with the same period in 2007.

The significant increase in revenue for the nine-month period was primarily driven by continuing strong performance of the Group's newly launched in-house product *Slounase*®. Existing product *Yallaferon*® was also a major contributor to the growth with an increase of 60% over the same period last year. The sales of the newly launched license-in product Iron Proteinsuccinylate also experienced stable growth during the period, in line with the management's expectation.

The substantial growth in profitability of the Group could be attributed mainly to the increase in revenue and improvement in gross margin. For the nine months ended 30 September 2008, the gross margin increased to 70.6% from 69.2% of same period last year, despite an unfavorable exchange rate for the licensed products. The improvement in gross margin was mainly the results of enhancing productivity and manufacturing efficiency for in-house developed products.

Selling and distribution expenses to turnover ratio continued its downward trend, reduced to 28.19% for the third quarter of 2008 from 28.84% for the second quarter. The reduction was more significant when comparing the ratio of 29.1% for the nine months ended 30 September 2008 and the ratio of 30.7% for the same period in 2007. The drop in ratio was mainly the results of benefiting from increase in economy of scale in sales.

During the third quarter, the Group's eye gel workshop was GMP certified by China's SFDA which led to the launch of our first ophthalmology product *Eyprotor*® in September 2008. This is the third successful launch in recent three years, a further affirmation of the Group's development capability and capacity.

Significant progress was also made during the quarter in the area of clinical study. Both reports for Bemiparin study and *Horus®S* stent study had been completed. PLC and ALC clinical studies have started patient enrollment and progressed well. Clinical study for *Veloderm®* in skin graft was initiated which brings the Group's total ongoing clinical studies to four. Three other clinical studies have entered planning and preparation phase in the third quarter.

For partnership development, we signed three licensing agreements with US and European companies for development, registration and marketing of pharmaceutical products in the areas of oncology, pain management and neurology in the third quarter.

Prospects

The renovation of the Group's Hefei manufacturing facility has been completed. The increase in automation and improvement in overall production environment will not only enhance the Group's production capacity, but also strengthen the Group's quality assurance capability.

The Group remains confident on its growth prospect for the rest of the year. It is expected that all five existing products continue to register phenomenal growth, with *Slounase®* leading the pack. The newly launched product *Eyprotor®* will further expand the Group's revenue base.

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 30 September 2008 were as follows:

Grantees	Date of Grant	Outstanding at 1.1.2008	Number of share options			Outstanding at 30.9.2008
			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
<i>Sub-total of Directors</i>		6,379,000	-	-	-	6,379,000
Employees						
	26.06.2002	50,000	-	(50,000)	-	-
	13.01.2003	400,000	-	(100,000)	-	300,000
	25.06.2004	5,650,000	-	(850,000)	-	4,800,000
	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
<i>Sub-total of employees and consultant</i>		10,000,000	3,355,000	(1,750,000)	-	11,605,000
Grand total		16,379,000	3,355,000	(1,750,000)	-	17,984,000

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	(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	
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	0.492
	(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	

Save as disclosed above, as at 30 September 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 September 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		2,004,375		
	Interest of corporation	(i)	<u>128,290,625</u>	130,295,000	31.41
Leelalertsuphakun Wanee	Beneficial owner		2,640,000		
	Interest of corporation	(i)	<u>128,290,625</u>	130,930,625	31.56
Li Xiaoyi	Beneficial owner		35,110,000		
	Interest of spouse	(ii)	<u>16,000,000</u>	51,110,000	12.32
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.29

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	130,295,000	1,600,000	131,895,000
Leelalertsuphakun Wanee	130,930,625	289,000	131,219,625
Li Xiaoyi	51,110,000	2,890,000	54,000,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
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 30 September 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 30 September 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 which are required to be notified to the Company 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:

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	28.99
Defiante Farmaceutica, Lda	Beneficial owner		123,850,000	29.85
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)	35,110,000	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	51,110,000	2,890,000	54,000,000

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 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 interim report for the nine months ended 30 September 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 Wancee

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, 12 November 2008