



**LEE'S PHARM.**

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

06  
First Quarterly Report

李氏大藥廠

(incorporated in the Cayman Islands with limited liability)



\* 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 ended 31 March 2006, together with the comparative unaudited consolidated figures for the corresponding period in 2005 as follows:

	<i>Notes</i>	<b>For the three months ended</b>	
		<b>2006</b>	<b>2005</b>
		<b>31 March</b>	
		<b>HK\$ '000</b>	<b>HK\$ '000</b>
Turnover	(2)	<b>10,477</b>	8,841
Cost of sales		<b>(4,288)</b>	(2,804)
Gross profit		<b>6,189</b>	6,037
Other revenue		<b>264</b>	382
Selling and distribution expenses		<b>(3,223)</b>	(3,319)
Research and development expenses		<b>(261)</b>	(182)
Administrative expenses		<b>(2,965)</b>	(2,756)
Profit from operations		<b>4</b>	162
Finance costs		<b>(149)</b>	(134)
(Loss) profit before taxation		<b>(145)</b>	28
Taxation	(3)	<b>(71)</b>	11
(Loss) profit attributable to shareholders		<b>(216)</b>	39
Dividends		–	–
		<b>HK cents</b>	<b>HK cents</b>
(Loss) earnings per share			
Basic	(4)	<b>(0.06)</b>	0.01
Diluted	(4)	<b>N/A</b>	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 three months ended 31 March 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***

	<b>For the three months ended 31 March</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proprietary products	<b>5,507</b>	6,339
License-in products	<b>4,970</b>	2,502
	<b>10,477</b>	8,841

***Geographical segments***

During the period ended 31 March 2006 and 2005, 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	
	2006 HK\$'000	2005 HK\$'000
Current tax		
PRC income tax	(82)	–
Deferred tax credit	11	11
<b>Taxation attributable to the Group</b>	<b>(71)</b>	<b>11</b>

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 and diluted (loss) earnings per share is based on the following data:

	For the three months ended 31 March	
	2006 HK\$(216,000)	2005 HK\$39,000
Net (loss) profit attributable to shareholders for the purpose of basic and diluted (loss) earnings per share		
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	346,225,000	346,225,000
Effect of dilutive potential ordinary shares: options and warrants	–	–
<b>Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share</b>	<b>346,225,000</b>	<b>346,225,000</b>

No diluted (loss) earnings per share for the three months ended 2006 and 2005 has been presented as the exercise prices of the options and warrants are higher than the market price of the shares during the period.

## 5. Share capital and reserves

	Share capital <i>HKS'000</i>	Share premium <i>HKS'000</i>	Merger difference <i>HKS'000</i>	Revaluation reserve <i>HKS'000</i>	Employee share-based compensation reserve <i>HKS'000</i>	Exchange reserve <i>HKS'000</i>	Accumulated losses <i>HKS'000</i>	Total <i>HKS'000</i>
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)
<b>At 31 March 2006</b>	<b>17,311</b>	<b>32,496</b>	<b>9,200</b>	<b>3,112</b>	<b>498</b>	<b>209</b>	<b>(27,295)</b>	<b>35,531</b>
At 1 January 2005	17,311	33,227	9,200	3,028	255	(62)	(27,232)	35,727
Employee share option benefits	-	-	-	-	48	-	-	48
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	-	-	(14)	-	(14)
Profit for the period	-	-	-	-	-	-	39	39
<b>At 31 March 2005</b>	<b>17,311</b>	<b>33,227</b>	<b>9,200</b>	<b>3,028</b>	<b>303</b>	<b>(76)</b>	<b>(27,193)</b>	<b>35,800</b>



## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

## **BUSINESS REVIEW**

During the first quarter of 2006, the Group achieved the second highest quarterly turnover of HK\$10.5 million, representing 19% increase over the same period in 2005 and 17% increase compared with previous quarter. The growth in revenue is driven by a 98% increase in sales of Carnitene®, a license-in product. However the gross profit margin decreased from 68% for the first quarter of last year to 59% for this quarter as license-in product has a lower gross profit margin than proprietary one.

The Group has continued to improve the efficiency and effectiveness of its marketing and selling organisation, evidenced by a decrease in percentage of selling expenses over turnover from 38% in the first quarter of last year to 31% in the quarter under review.

In order to prepare for the launch of two proprietary products in the second and fourth quarter of this year, the Group has increased spending in research and development as well as human resources. As a result, the Group registered a loss of HK\$216,000 compared with a slight profit of HK\$39,000 in the first quarter of 2005.

## **PROSPECTS**

The Group targets to launch two self developed products in the second and fourth quarter of 2006. They are Slounase ( Hemocoagulase) and Eyprotor ( Protein-free Calf Blood Extract Eye-gel). Hemocoagulase is widely prescribed in China for different types of bleeding problems and Slounase is the first Hemocoagulase in China utilizing local snake venom that was approved by the SFDA. Eyprotor was well tolerated and effective for treatment of corneal ulcer caused by abrasion. The Group's performance will significantly improve upon the launch of these two new products.

In the second quarter, the Group will commence two clinical studies for its proprietary anti-platelet drug and its license-in coronary stent. Such efforts will help to advance both products through development stage, laying foundation for sustainable growth of the Group.

The Group is also actively negotiating with Sigma-tau and other business partners for distribution of different kinds of products in China which will undoubtedly boost the earning capability 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 31 March 2006 were as follows:

Grantees	Date of Grant	Outstanding at 1.1.2006	Number of share options			Outstanding at 31.03.2006
			Granted	Exercised/ cancelled	Lapsed	
<b>Directors</b>						
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
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	–	–	–	6,379,000
<b>Employees</b>						
	26.06.2002	50,000	–	–	–	50,000
	13.01.2003	400,000	–	–	–	400,000
	25.06.2004	6,250,000	–	–	–	6,250,000
	11.07.2005	3,750,000	–	–	–	3,750,000
<i>Sub-total of employees</i>		10,450,000	–	–	–	10,450,000
<b>Grand total</b>		16,829,000	–	–	–	16,829,000



*Notes:*

## 1. 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	(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	

Saved as disclosed above, as at 31 March 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 31 March 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	Total	% of 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		1,140,000		
	Interest of corporation	(i)	<u>163,290,625</u>	164,430,625	47.49
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	500,000	500,000
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
		6,379,000	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	% of issued share capital
Lee Siu Fong	165,625,000	1,600,000	167,225,000	48.08
Leelalertsuphakun Wanee	164,430,625	289,000	164,719,625	47.54
Li Xiaoyi	16,000,000	2,890,000	18,890,000	5.41
Mauro Bove	–	500,000	500,000	0.14
Chan Yau Ching, Bob	–	500,000	500,000	0.14
Lam Yat Cheong	–	300,000	300,000	0.09
Tsim Wah Keung, Karl	–	300,000	300,000	0.09

## 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 three months ended 31 March 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 31 March 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	% 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	30.39
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	5.41

*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 31 March 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 three months ended 31 March 2006.

## **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 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 three months ended 31 March 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, 10 May 2006

