





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

A close-up photograph of a person's face wearing a white surgical mask, with only their eyes visible. The image is overlaid with a large, semi-transparent blue letter 'A'.

human

First Quarterly Report 2004

A close-up photograph of a young girl with curly hair covering her mouth with her hands, looking surprised or excited. The image is overlaid with a large, semi-transparent blue letter 'A'.

technology

* 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.

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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 2004, together with the comparative unaudited consolidated figures for the corresponding period in 2003 as follows:

| | <i>Notes</i> | For the three months ended | |
|--------------------------------------|--------------|-----------------------------------|-------------------------------|
| | | 31 March | |
| | | 2004 | 2003 |
| | | <i>HK\$'000</i> | (Restated) <i>HK\$'000</i> |
| Turnover | (2) | 6,211 | 3,222 |
| Cost of sales | | (2,180) | (1,009) |
| Gross Profit | | 4,031 | 2,213 |
| Other revenue | | 29 | 59 |
| Selling and distribution expenses | | (2,718) | (928) |
| Administrative expenses | | (2,649) | (2,852) |
| Loss from operations | | (1,307) | (1,508) |
| Finance costs | | (145) | (176) |
| Loss before taxation | | (1,452) | (1,684) |
| Taxation | (4) | 4 | 12 |
| Loss before minority interest | | (1,448) | (1,672) |
| Minority interest | | – | – |
| Net loss for the period | | (1,448) | (1,672) |
| Dividends | | – | – |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Loss per Share | | | |
| Basic | (5) | (0.50) | (0.58) |
| Diluted | (5) | (0.50) | (0.58) |

Notes:

1. Basis of preparation

The Company has adopted the Hong Kong Financial Reporting Standards issued by the Hong Kong Society of Accountants and the disclosure requirements of GEM Listing Rules in preparing the unaudited consolidated results.

The accounting policies and methods 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 2003.

2. Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the period.

The Group's primary format for reporting segment information is business segments.

| | Three months ended 31 March | |
|----------------------|------------------------------------|-------------------------|
| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
| Proprietary products | 4,497 | 3,222 |
| License-in products | 1,714 | – |
| | 6,211 | 3,222 |

3. Taxation

| | Three months ended 31 March | |
|---|------------------------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current tax | | |
| Hong Kong | – | – |
| PRC | – | – |
| | – | – |
| Deferred tax | | |
| Credit of current period | 4 | 12 |
| Taxation attributable to the Group | 4 | 12 |

No provision for Hong Kong, PRC and overseas profits tax has been made as the Group had no estimated assessable profit for the three months ended 31 March 2004 (2003: Nil).

4. Loss per share

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

| | For the three months ended 31 March | |
|--|--|--------------------|
| | 2004 | 2003 (Restated) |
| Loss: | | |
| Net loss for the period for the purpose of basic and diluted loss per share | HK\$1,448,000 | HK\$1,672,000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 289,225,000 | 289,225,000 |
| Effect of dilutive potential ordinary shares: Options | – | 333,333 |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | 289,225,000 | 289,558,333 |

No diluted loss per share for the period in 2004 has been presented because the exercise prices of the options were higher than the average market price of the Company's shares for the period.

5. Reserves

| | Unaudited | | | | | Total HK\$'000 |
|---|------------------------------|----------------------------------|------------------------------------|---------------------------------|-----------------------------------|-------------------|
| | Share premium HK\$'000 | Merger difference HK\$'000 | Revaluation reserve HK\$'000 | Exchange reserve HK\$'000 | Accumulated losses HK\$'000 | |
| | At 01.01.2003 | 24,887 | 9,200 | 4,613 | 1 | |
| Adjustment on adoption of SSAP 12 (Revised) | – | – | (692) | 11 | (261) | (942) |
| At 01.01.2003, as restated | 24,887 | 9,200 | 3,921 | 12 | (18,050) | 19,970 |
| Exchange rate adjustment not recognised in consolidated income statement | – | – | – | 6 | – | 6 |
| Net loss for the period | – | – | – | – | (1,672) | (1,672) |
| At 31.03.2003, as restated | 24,887 | 9,200 | 3,921 | 18 | (19,722) | 18,304 |
| At 01.01.2004 | 24,887 | 9,200 | 3,921 | (14) | (23,413) | 14,581 |
| Exchange rate adjustment not recognised in consolidated income statement | – | – | – | (57) | – | (57) |
| Net loss for the period | – | – | – | – | (1,448) | (1,448) |
| At 31.03.2004 | 24,887 | 9,200 | 3,921 | (71) | (24,861) | 13,076 |

DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2004 (2003: Nil).

FINANCIAL REVIEW

The Group's unaudited consolidated turnover for the three months ended 31 March 2004 amounted to approximately HK\$6.21 million, representing an increase of 92.77% as compared with the corresponding period of 2003. The Group's overall gross margin had slightly dropped to 64.90% in 2004 from that of 68.68% in 2003 because of sales of license-in product having lower gross margin of 34.39%.

In the first quarter of 2004, the turnover of the Group's flagship product, Livaracine, contributing to 57.09% of total turnover was increased by 38.08% over the corresponding period of last year with a strong growth momentum. Despite the slightly price reduction of Livaracine, sales growth was derived from the 42.47% increase of sales volume from 219,000 vials to 312,000 vials.

Selling and distribution expenses for the first quarter of 2004 substantially increased as compared with that of corresponding period of 2003 due to proportionate increase with turnover and set-up of sales and marketing department in Hong Kong in November 2003 for the Group's license-in product to be launched in the Hong Kong market.

Loss from operations in the three months ended 31 March 2004 continued the trend of narrowing and recorded a 13.40% decrease on a year-to-year base to HK\$1.45 million despite an initial heavy marketing spending for product launch in Hong Kong market. The improvement in loss was a result of significant increase in revenue.

BUSINESS REVIEW

During the three months ended 31 March 2004, the Group has achieved the following objectives:

- The strategy of broadening revenue base has been successfully implemented with launch of L-Carnitine in China market, which contributed to a more than 50% of the growth in revenue.
- The marketing effort of Yallaferon has been intensified with successful completion of clinical study for expanding indications.
- Approval has been obtained from the State Food and Drug Administration (the "SFDA") of the People's Republic of China ("PRC") for conducting clinical study on Yallaferon's effect on cervical erosion, a serious health problem for women.
- Approval has been obtained from SFDA of PRC to initiate clinical study for protein-free calf blood extract eye-gel.
- The Group has obtained an exclusive distribution rights on Irrodan Retard, a product which has already been registered in PRC from an Italian pharmaceutical company, Biomedica Foscama S.P.A. for China market.
- The advertising and distribution programs of Vira 38° and ArginMax for Hong Kong market was commenced in the first quarter of 2004.

PROSPECT

In the coming months, the Group will continue to focus its efforts and resources on the following areas:

- Pursue innovative and proprietary technology and products for licensing from United States of America ("US") and Europe.

- Cooperate with The Chinese University of Hong Kong to conduct a 400 patient clinical study on Vira 38° for treatment of influenza.
- Continue to build an effective and efficient sales and marketing team in the PRC for the existing four products, namely Livaracine, L-Carnitine, Yallaferon and Defibrase.
- Prepare the launch of Irrodan in China and the launch of Gliconorm in Hong Kong.
- Intensify its marketing effort of ArginMax and Vira 38° in Hong Kong.

SHARE OPTION

Details of share options to subscribe for shares in the Company granted to participants under the pre-IPO share option scheme and the share option scheme of the Company during the three months ended 31 March 2004 were as follows:

| Date of grant | Exercise period | Exercise price per share | <i>Notes</i> | Number of options outstanding as at 01.01.2004 and 31.03.2004 |
|----------------------|-------------------------|-------------------------------------|--------------|--|
| <i>Directors</i> | | | | |
| 26.06.2002 | 26.06.2004 - 25.06.2012 | HK\$0.280 | (1)&(2) | 1,600,000 |
| 13.01.2003 | 13.07.2003 - 12.01.2013 | HK\$0.405 | (1) | 3,379,000 |
| | | | | 4,979,000 |
| <i>Employees</i> | | | | |
| 26.06.2002 | 26.06.2004 - 25.06.2012 | HK\$0.280 | (2) | 400,000 |
| 13.01.2003 | 13.07.2003 - 12.01.2013 | HK\$0.405 | | 550,000 |
| | | | | 950,000 |
| | | | | 5,929,000 |

Notes:

- (1) Details of the options granted to the Directors are set out in the section headed "Directors' and chief executives' interests and short positions in the shares and underlying shares".
- (2) The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26.06.2004 to 25.06.2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26.06.2005 to 25.06.2012 (both days inclusive).
- (3) No option was granted, exercised or cancelled during the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interests and short positions of the Directors and chief executives in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in shares

| Name of director | Notes | Number of issued ordinary shares of HK\$0.05 each ("Shares") in the Company held and nature of interest | | | Total | Percentage to issued share capital |
|----------------------------|-------|--|-----------------------|--------------------|-------------|--|
| | | Personal interest | Corporate interest | Family interest | | |
| Lee Siu Fong | (i) | 2,334,375 | 163,290,625 | – | 165,625,000 | 57.27% |
| Leelalertsuphakun Wanee | (ii) | – | 163,290,625 | – | 163,290,625 | 56.46% |
| Li Xiaoyi | (iii) | – | – | 16,000,000 | 16,000,000 | 5.53% |

Notes:

- (i) 2,334,375 Shares are held personally by Lee Siu Fong ("Ms. Lee") and 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 and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun").

- (ii) 163,290,625 Shares are held through Huby Technology and Dynamic Achieve. Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Leelalertsuphakun and Ms. Lee.
- (iii) These shares are held by High Knowledge Investments Limited (“High Knowledge”) which is wholly owned by Ms. Lue Shuk Ping, Vicky (“Ms. Lue”), the spouse of Li Xiaoyi (“Dr. Li”). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

Long positions in underlying Shares of equity derivatives

Pursuant to the pre-IPO share option scheme, an executive Director was granted share options to subscribe for Shares of the Company, details of which as at 31 March 2004 were as follows:

| Name | Date of grant | Exercise price | Exercise period (both dates inclusive) | Share options | Percentage to issued share capital |
|--------------|---------------|----------------|--|---|------------------------------------|
| | | | | outstanding as at 01.01.2004 and 31.03.2004 | |
| Lee Siu Fong | 26.06.2002 | HK\$0.28 | 26.06.2004 – 25.06.2012 | 1,600,000 | 0.55% |

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26.06.2004 to 25.06.2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26.06.2005 to 25.06.2012 (both days inclusive).

Pursuant to the share option scheme, certain executive and independent non-executive Directors were granted share options on 13 January 2003 to subscribe for Shares of the Company, details of which as at 31 March 2004 were as follows:

| Name | Date of grant | Exercise price | Exercise period (both dates inclusive) | Share options | Percentage to issued share capital |
|--|---------------|----------------|--|---|------------------------------------|
| | | | | outstanding as at 01.01.2004 and 31.03.2004 | |
| <i>Executive Directors</i> | | | | | |
| Leelalertsuphakun Wanee | 13.01.2003 | HK\$0.405 | 13.07.2003 – 12.01.2013 | 289,000 | 0.10% |
| Li Xiaoyi | 13.01.2003 | HK\$0.405 | 13.07.2003 – 12.01.2013 | 2,890,000 | 1.00% |
| <i>Independent Non-executive Directors</i> | | | | | |
| Chan Yau Ching, Bob | 13.01.2003 | HK\$0.405 | 13.07.2003 – 12.01.2013 | 100,000 | 0.03% |
| Leung Yun Fai | 13.01.2003 | HK\$0.405 | 13.07.2003 – 12.01.2013 | 100,000 | 0.03% |

No option granted under the pre-IPO share option scheme or the share option scheme was exercised, cancelled or lapsed during the period.

Aggregate long positions in the Shares and the underlying Shares

| Name | Number of Shares | Number of underlying Shares | Aggregate in number | Percentage to issued share capital |
|-------------------------|------------------|-----------------------------|---------------------|------------------------------------|
| Lee Siu Fong | 165,625,000 | 1,600,000 | 167,225,000 | 57.82% |
| Leelalertsuphakun Wanee | 163,290,625 | 289,000 | 163,579,625 | 56.56% |
| Li Xiaoyi | 16,000,000 | 2,890,000 | 18,890,000 | 6.53% |
| Chan Yau Ching, Bob | – | 100,000 | 100,000 | 0.03% |
| Leung Yun Fai | – | 100,000 | 100,000 | 0.03% |

Save as disclosed above, as at 31 March 2004, none of the Directors, chief executives or their associates had any personal, family, corporate or other beneficial 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).

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the 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) as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in Shares

| Name | Capacity | Number of Shares | Percentage to issued share capital |
|---|---|---------------------|--|
| Huby Technology Limited | Beneficial owner | 155,290,625 | 53.69% |
| High Knowledge Investments Limited (<i>Note</i>) | Beneficial owner | 16,000,000 | 5.53% |
| Lue Shuk Ping, Vicky | Interest in a controlled corporation | 16,000,000 | 5.53% |

Note:

The shares, which are legally owned by High Knowledge Investments Limited, are entirely and beneficially owned by Ms. Lue.

Long positions in underlying Shares of equity derivatives

| Name | Nature of Interest | Number and description of equity derivatives | Number of underlying Shares |
|----------------------|---------------------------|--|------------------------------------|
| Lue Shuk Ping, Vicky | Family | Dr. Li, 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 | 2,890,000 |

Aggregate long positions in the Shares and the underlying Shares

| Name | Number of Shares | Number of underlying Shares | Aggregate in number | Percentage to issued share capital |
|------------------------------------|-------------------------|------------------------------------|----------------------------|---|
| Huby Technology Limited | 155,290,625 | – | 155,290,625 | 53.69% |
| High Knowledge Investments Limited | 16,000,000 | – | 16,000,000 | 5.53% |
| Lue Shuk Ping, Vicky | 16,000,000 | 2,890,000 | 18,890,000 | 6.53% |

Saved as disclosed above, as at 31 March 2004, no other parties were 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.

SPONSOR'S INTERESTS

As at 31 March 2004, the Company's continuing sponsor, Kingsway Capital Limited ("Kingsway") has confirmed that (i) neither it nor its associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group (including options or rights to subscribe for such securities); and (ii) none of its directors or employees had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any members of the Group.

Pursuant to the agreement dated 13 February 2004 entered into between the Group and Kingsway, Kingsway has received and will receive a fee for acting as the Company's continuing sponsor for the period from 16 February 2004 to 31 December 2004 or until the sponsor agreement is terminated upon the terms and condition set out therein.

COMPETING INTERESTS

None of the Directors or the initial management shareholders (as defined in the GEM Listing Rules) had an interest in a business, which causes or may cause any significant competition with the business of the Group.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with board practices and procedures as set out in Rule 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 31 March 2004.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The Committee has three members comprising an executive Director, Ms. Lee and two independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob and Mr. Leung Yun Fai. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company listed securities during the three months ended 31 March 2004.

By the order of the Board

Lee Siu Fong

Chairperson

Hong Kong, 14 May 2004