

THIRD QUARTERLY REPORT 2003



LEE'S PHARM.

李氏大藥廠



Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

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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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 and nine months ended 30 September 2003, together with the comparative unaudited consolidated figures for the corresponding period in 2002 as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2003 HK\$'000	2002 (Restated) HK\$'000	2003 HK\$'000	2002 (Restated) HK\$'000
Turnover	(2)	3,499	3,008	13,662	8,560
Cost of sales		(905)	(786)	(3,388)	(2,332)
Gross Profit		2,594	2,222	10,274	6,228
Other revenue		47	79	689	202
Selling and distribution expenses		(1,593)	(1,191)	(5,043)	(3,726)
Administrative expenses		(3,219)	(2,547)	(8,812)	(5,514)
Loss from operations		(2,171)	(1,437)	(2,892)	(2,810)
Finance costs		(132)	(158)	(442)	(453)
Loss before taxation		(2,303)	(1,595)	(3,334)	(3,263)
Taxation	(4)	12	12	48	20
Loss before minority interest		(2,291)	(1,583)	(3,286)	(3,243)
Minority interest		–	–	–	1,621
Net loss for the period		(2,291)	(1,583)	(3,286)	(1,622)
		HK cents	HK cents	HK cents	HK cents
Loss per share					
Basic	(5)	(0.79)	(0.57)	(1.14)	(0.71)
Diluted	(5)	(0.79)	(0.57)	(1.13)	(0.70)

Notes:

1. Basis of preparation

The principal accounting policies adopted in the preparation of the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants and the disclosure requirements of GEM Listing Rules.

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

2. Turnover

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

3. Segment information

As the Group is only engaged in the development, manufacturing and sales of pharmaceutical products solely in the People's Republic of China ("PRC") for the three months and nine months ended 30 September 2003 and 2002, no segmental information is presented accordingly.

4. Taxation

	(Unaudited)		(Unaudited)	
	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong	–	–	–	–
PRC	–	–	–	–
	–	–	–	–
Deferred tax				
Credit of current period	12	12	48	20
Taxation attributable to the Group	12	12	48	20

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 and nine months ended 30 September 2003 (2002: Nil).

5. Loss per share

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

	(Unaudited)		(Unaudited)	
	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
Loss:				
Net loss for the period for the purpose of basic and diluted loss per share	HK\$2,291,000	HK\$1,583,000	HK\$3,286,000	HK\$1,622,000
Number of shares of the Company (the "Shares"):				
Weighted average number of ordinary shares for the purpose of basic loss per share	289,225,000	277,811,957	289,225,000	229,639,836
Effect of dilutive potential ordinary shares: options	1,000,000	1,666,667	1,000,000	1,666,667
Weighted average number of ordinary shares for the purpose of diluted loss per share	290,225,000	279,478,624	290,225,000	231,306,503

6. Reserves

	Share premium <i>HK\$ '000</i>	Merger difference <i>HK\$ '000</i>	Revaluation reserve <i>HK\$ '000</i>	Exchange reserves <i>HK\$ '000</i>	Accumulated losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 January 2002	-	-	-	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	-	9,200	-	-	-	9,200
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	3,360	-	-	-	-	3,360
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	3,082	-	-	-	-	3,082
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	631	-	-	-	-	631
Issue of Shares to Huby Technology Limited for cash	1,856	-	-	-	-	1,856
Issue of Shares to public	26,250	-	-	-	-	26,250
Share issue expenses	(10,292)	-	-	-	-	(10,292)
Surplus on revaluation of property, plant and equipment not recognised in consolidated income statement (restated)	-	-	3,921	-	-	3,921
Exchange rate adjustment not recognised in consolidated income statement (restated)	-	-	-	48	-	48
Net loss for the period (restated)	-	-	-	-	(1,622)	(1,622)
At 30 September 2002, as restated	24,887	9,200	3,921	33	(15,944)	22,097
At 1 January 2003	24,887	9,200	4,613	1	(17,789)	20,912
Adjustment on adoption of SSAPI2 (Revised)	-	-	(692)	11	(261)	(942)
At 1 January 2003, as restated	24,887	9,200	3,921	12	(18,050)	19,970
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	(29)	-	(29)
Net loss for the period	-	-	-	-	(3,286)	(3,286)
At 30 September 2003	24,887	9,200	3,921	(17)	(21,336)	16,655

DIVIDEND

The Board does not recommend the payment of any dividend for the period (2002: Nil).

FINANCIAL REVIEW

For the three months ended 30 September 2003, the Group achieved an 16.32% increase to HK\$3.50 million in its turnover as compared to the same quarter last year. The persistent increase in turnover was mainly attributed to the wider acceptance of Livaracine® by medical professionals in the PRC.

Administrative expenses amounted to HK\$3,219,000 for the three months ended 30 September 2003, an 26.38% increase from HK\$2,547,000 for the same period of the previous year. The increase was mainly attributed to the one-off payment incurred on departure of the chief marketing officer and fee paid to an overseas consultant who is responsible for searching strategic alliance with overseas pharmaceutical companies. Moreover, starting from the third quarter of 2003, advisory fee paid to the sponsor has been accounted for.

BUSINESS REVIEW

During the three months ended 30 September 2003, the Group had achieved the following objectives:

- The certificate of drug registration of the Group's first license-in drug, Gliconorm® has been issued by the Department of Health, Hong Kong.
- The Group obtained the exclusive distribution rights in the PRC from an Italian pharmaceutical company for L-carnitine for cardiac diseases.
- Approval was received from the State Food and Drug Administration of the PRC (the "SFDA") to initiate clinical study on recurrence rate reduction of venereal warts for its flagship product, Yallaferon®.
- The project known as "Screening of Human Haparanase Inhibitors as Anti-Cancer Drugs from Traditional Chinese Medicine" co-operated with the Department of Biology of Hong Kong University of Science and Technology discovered several "hits" from extracts derived from herbal medicines.

PROSPECTS

The Group will continue to focus its efforts and resources on the following areas:

- The setting up of sales and marketing team for Hong Kong market will be completed before the end of November 2003.
- The Group will embark on selling license-in drugs in Hong Kong and PRC before the end of this year.
- The licenses and regulatory approvals in Hong Kong for sales of two license-in drugs of antibiotics are expected to be obtained in the near future.
- The Group will continue its efforts to build up pipeline through licensing in technologies and drugs with potential markets from the United States of America and Europe.

SHARE OPTION

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 of the Company dated 3 July 2002 (the "Prospectus").

On 26 June 2002, options to subscribe for an aggregate of 5,000,000 Shares at a subscription price of HK\$0.28 per Share were granted to certain employees and two executive Directors pursuant to the Pre-IPO Share Option Scheme, particulars of which are set out in the Prospectus. Such options will, in respect of not more than 50% thereof, be exercisable not less than two years but not more than ten years from the date of grant, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive), and in respect of the unexercised balance thereof, be exercisable not less than three years but not more than ten years from the date of grant, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Pursuant to the Share Option Scheme, certain executive, independent non-executive Directors and employees were granted options on 13 January 2003 to subscribe for 3,929,000 Shares at a subscription price of HK\$0.405 per Share. The share options will be exercisable not less than six months but not more than ten years from the date of grant, i.e. during the period from 13 July 2003 to 12 January 2013 (both days inclusive).

The share options granted are not recognized in the financial statements until they are exercised. Up to 30 September 2003, no share option granted has been exercised.

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (“SFO”) AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the following persons had interests directly or indirectly 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:

(a) Long positions in Shares

Name	Notes	Number of Shares beneficially held	Nature of interest	Percentage of shareholding
Huby Technology Limited		155,290,625	Corporate	53.7%
Lee Siu Fong (“Ms. Lee”)	1	165,625,000	Personal & Corporate	57.3%
Leelalertsuphakun Wanee (“Ms. Leelalertsuphakun”)	2	163,290,625	Corporate	56.5%
High Knowledge Investments Limited	3	16,000,000	Corporate	5.5%
Lue Shuk Ping, Vicky (“Ms. Lue”)	3	16,000,000	Corporate	5.5%

Notes:

- 2,334,375 Shares out of 165,625,000 Shares are held by Ms. Lee personally. In addition, Ms. Lee holds 163,290,625 Shares, of which 155,290,625 Shares are held by Huby Technology Limited (“Huby Technology”) and 8,000,000 Shares are held by Dynamic Achieve Investments Limited (“Dynamic Achieve”), and in both companies, 50 per cent. of their respective entire issued capitals are legally and beneficially owned by Ms. Lee.

2. Among the 163,290,625 Shares, 155,290,625 Shares are held by Huby Technology and 8,000,000 Shares are held by Dynamic Achieve, and in both companies, 50 per cent. of their respective entire issued capitals are legally and beneficially owned by Ms. Leelalertsuphakun.
3. These Shares are legally owned by High Knowledge Investments Limited (“High Knowledge”), which is entirely and beneficially owned by Ms. Lue.

(b) Long positions in underlying Shares of equity derivatives

Name	Nature of interest	Number and description of equity derivatives	Number of underlying shares
Ms. Lee	Personal	Pre-IPO share option to subscribe for 1,600,000 Shares pursuant to the Pre-IPO Share Option Scheme	1,600,000
Ms. Leelalertsuphakun	Personal	Share option to subscribe for 289,000 Shares pursuant to the Share Option Scheme	289,000
Ms. Lue	Family	Dr. Li Xiaoyi (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

(c) Short positions in Shares

No short positions of other persons and substantial shareholders in the Shares were recorded in the register.

(d) Short positions in underlying Shares of equity derivatives

No short positions of other persons and substantial shareholders in the underlying Shares of equity derivatives of the Company were recorded in the register.

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

As at 30 September 2003, the interests and short positions of the Directors and chief executives of the Company 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 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

(a) Long positions in Shares

Name of director	Notes	Number of Shares held and nature of interest				Total	Percentage of issued share capital
		Personal interest	Corporate interest	Family interest			
Ms. Lee	(i)	2,334,375	163,290,625	–	165,625,000	57.27%	
Ms. Leelalertsuphakun	(ii)	–	163,290,625	–	163,290,625	56.46%	
Dr. Li	(iii)	–	–	16,000,000	16,000,000	5.5%	

Notes:

- (i) 2,334,375 Shares are held personally by Ms. Lee and 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. Lee and 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 which is wholly owned by Dr. Li's spouse, Ms. Lue. The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) Long positions in underlying Shares of equity derivatives

Pursuant to the Pre-IPO Share Option Scheme, two executive Directors* were granted share options to subscribe for Shares of the Company, details of which as at 30 September 2003 were as follows:

Name of director	Date of grant	Exercise price	Exercisable period	Number of share options outstanding at 30 September 2003
<i>Executive Director</i>				
Ms. Lee	26/06/2002	HK\$0.28	50 per cent. thereof be exercisable not less than two years but not more than 10 years from the date of grant i.e. 26/06/2002. In respect of the unexercised balance thereof be exercisable not less than three years but not more than 10 years from the date of grant i.e. 26/06/2002.	1,600,000

**Note: Mr. Lau Tai Wai resigned as director with effect from 24 September 2003 and the outstanding share options granted to him shall thereby lapse in accordance with the Rules of Pre-IPO Share Option Scheme adopted on 26 June 2002.*

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 30 September 2003 were as follows:

Name of director	Date of grant	Exercise price	Exercisable period	Number of share options outstanding at 30 September 2003
<i>Executive Directors</i>				
Ms. Leelalertsuphakun	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	289,000
Dr. Li	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	2,890,000
<i>Independent Non-executive Directors</i>				
Chan Yau Ching, Bob	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	100,000
Leung Yun Fai	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	100,000

No option granted under the Pre-IPO Share Option Scheme or the Share Option Scheme was cancelled or lapsed since the date of grant.

(c) Short positions in Shares

No short positions of Directors and chief executives in the 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 5.40 of the GEM Listing Rules.

(d) Short positions in underlying Shares of equity derivatives

No short positions of Directors and chief executives in the underlying Shares of the equity derivatives 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 5.40 of the GEM Listing Rules.

SPONSOR'S INTERESTS

As at 30 September 2003, the Company's sponsor, Goldbond Capital (Asia) Limited (formerly known as Asia Investment Capital Limited) ("GCAL") 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 4 October 2000 entered into between the Group and GCAL, GCAL has received and will receive a fee for acting as the Company's retained sponsor for the period from 16 July 2002 to 31 December 2004.

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.

CHANGE OF DIRECTORSHIP

Mr. Lau Tai Wai ("Mr. Lau") resigned as director of the Company with effect from 24 September 2003. Since then, Ms. Leelalertsuphakun has taken up Mr. Lau's function as the chief marketing officer of the Company.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules throughout the three months ended 30 September 2003.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in compliance with Rules 5.23 to 5.25 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 and nine months ended 30 September 2003.

Lee Siu Fong

Chairperson

Hong Kong, 13 November 2003