



# 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: 8221)

## RESULTS ANNOUNCEMENT FOR THIRD QUARTER 2004

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*This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purposes only

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

	<i>Notes</i>	<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
		<b>2004</b>	2003	<b>2004</b>	2003
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Turnover	(2)	<b>8,435</b>	3,499	<b>22,313</b>	13,662
Cost of sales		<b>(3,132)</b>	(905)	<b>(7,698)</b>	(3,388)
Gross Profit		<b>5,303</b>	2,594	<b>14,615</b>	10,274
Other revenue		<b>29</b>	47	<b>495</b>	689
Selling and distribution expenses		<b>(3,386)</b>	(1,593)	<b>(9,466)</b>	(5,043)
Administrative expenses		<b>(2,472)</b>	(3,219)	<b>(7,857)</b>	(8,812)
Loss from operations		<b>(526)</b>	(2,171)	<b>(2,213)</b>	(2,892)
Finance costs		<b>(145)</b>	(132)	<b>(454)</b>	(442)
Loss before taxation		<b>(671)</b>	(2,303)	<b>(2,667)</b>	(3,334)
Taxation	(3)	<b>12</b>	12	<b>28</b>	48
Loss before minority interest		<b>(659)</b>	(2,291)	<b>(2,639)</b>	(3,286)
Minority interest		<b>–</b>	–	<b>–</b>	–
Net loss for the period		<b>(659)</b>	(2,291)	<b>(2,639)</b>	(3,286)
		<b><i>HK cents</i></b>	<i>HK cents</i>	<b><i>HK cents</i></b>	<i>HK cents</i>
Loss per share					
Basic	(4)	<b>(0.21)</b>	(0.79)	<b>(0.88)</b>	(1.14)
Diluted	(4)	<b>(0.21)</b>	(0.79)	<b>(0.88)</b>	(1.13)

Notes:

## 1. Basis of preparation

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

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 2003.

The consolidated results for the three months and nine months ended 30 September 2004 have not been audited, 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	
	2004	2003	2004	2003
Proprietary products	5,396	3,499	15,624	13,662
License-in products	3,039	–	6,689	–
	<u>8,435</u>	<u>3,499</u>	<u>22,313</u>	<u>13,662</u>

*Geographical segment:*

During the period ended 30 September 2004 and 2003, 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 30 September		For the nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current tax				
Hong Kong	-	-	-	-
PRC	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-	-
Deferred tax				
Credit of current period	12	12	28	48
	<u>12</u>	<u>12</u>	<u>28</u>	<u>48</u>
Taxation attributable to the Group	<u>12</u>	<u>12</u>	<u>28</u>	<u>48</u>

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 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 30 September		For the nine months ended 30 September	
	2004	2003	2004	2003
Loss:				
Net loss for the period for the purpose of basic and diluted loss per share	<u>HK\$659,000</u>	<u>HK\$2,291,000</u>	<u>HK\$2,639,000</u>	<u>HK\$3,286,000</u>
Number of shares of the Company (the "Shares"):				
Weighted average number of ordinary shares for the purpose of basic loss per share	317,105,435	289,225,000	298,586,314	289,225,000
Effect of dilutive potential ordinary shares: options	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>317,105,435</u>	<u>290,225,000</u>	<u>298,586,314</u>	<u>290,225,000</u>

No diluted loss per share is presented in 2004 because the exercise prices of the options were higher than the market price of the Shares for the period.

## 5. Reserves

	Share premium HK\$'000	Merger difference HK\$'000	Revaluation reserve HK\$'000	Exchange reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2004	24,887	9,200	3,921	(14)	(23,413)	14,581
Issue of new shares to subscriber	8,664	-	-	-	-	8,664
Share issue expenses	(321)	-	-	-	-	(321)
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	(82)	-	(82)
Net loss for the period	-	-	-	-	(2,639)	(2,639)
<b>At 30 September 2004</b>	<b>33,230</b>	<b>9,200</b>	<b>3,921</b>	<b>(96)</b>	<b>(26,052)</b>	<b>20,203</b>
At 1 January 2003	24,887	9,200	4,613	1	(17,789)	20,912
Adjustment on adoption of SSAP12 (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 (2003: Nil).

## FINANCIAL REVIEW

Turnover for the three months ended 30 September 2004 amounted to HK\$8.44 million representing an increase of 141.07% from HK\$3.50 million in the corresponding period last year. The increase in sales was driven by both the sales of new license-in products amounted to HK\$3.04 million and steady sales growth of existing proprietary products of HK\$1.90 million. Turnover for the nine months ended 30 September 2004 amounted to HK\$22.31 million, representing a 63.32% increase over the sales of HK\$13.66 million recorded during the same period last year.

During the period under review, proprietary product <Livaracine> continued to expand its market shares, evidenced by a sales growth of 42.06% and 51.95% for the three months and nine months ended 30 September 2004 as compared with the corresponding period last year.

Regardless of the effect of SARS which increase fourfold the sales volume in the second quarter 2003, sales of <Yallaferon> also improved significantly, seeing a 82.07% increase by average over last year.

In the third quarter of 2004, the sales of license-in product <L-Carnitine> was also expanded markedly, contributing to 35.73% of total turnover and increased by 60.53% over last quarter with a strong growth momentum.

Although the gross profit margin was reduced to 62.87% in the third quarter of 2004, compared to 74.14% for the same period in 2003 as a result of sales of license-in products having lower gross profit margin of 34.27%, the gross profit was more than double to HK\$5.30 million compared to HK\$2.59 million for the same period last year.

As the Group intensified its marketing effort, the selling and distribution expenses was increased significantly to HK\$3.39 million in the third quarter 2004 (2003: HK\$1.59 million). However, its percentage to sales decreased from last year's 45.53% to 40.14% in the quarter under review.

Better cost control was also achieved during the quarter, it was evidenced by not only a drastic decrease of administrative expenses to turnover ratio from 92.0% for the third quarter 2003 to 29.31% for this quarter, but also a net reduction of HK\$0.75 million.

Net loss in the third quarter 2004 continued the trend of narrowing and recorded a 71.24% decrease on a quarter-to-quarter base to HK\$0.66 million. The improvement in loss was a result of significant increase in turnover and tighter control of expenses.

## **BUSINESS REVIEW**

During the three months ended 30 September 2004, the Group had achieved the following objectives:

- Forming a strategic partnership with Sigma-tau, one of the largest independent pharmaceutical companies in Italy through the subscription for the 57,000,000 new shares of the Company by Defiante Farmaceutica, Lda, a subsidiary of Sigma-tau. The investment was completed in August 2004 and the net proceeds from the subscription of HK\$11.19 million was received and is used for working capital of the Group.
- The Group has won a public tender for <Livaracine> in Shanghai, PRC. With over 20 million populations and fast growing economy, Shanghai is one of the fast growing and top five pharmaceutical markets in the PRC. Winning the tender presents a great opportunity for <Livaracine> to penetrate to one of few uncovered markets in PRC.
- The Group has obtained an exclusive distribution rights on <Hibor> a “second generation” injectable low molecular weight heparin in pre-filled syringe form from a Spanish pharmaceutical company for PRC and Hong Kong market.
- The Group has completed and submitted the supplementary data for both Anti-fungus Peptide and Hemocoagulase to the State Food and Drug Administration of PRC (“SFDA”) for further review during the quarter. Approval of clinical study for both products is expected soon.

- The Group's multi-center clinical study of <Yallaferon> for the treatment of cervical erosion has started to recruit patients during the quarter.

## **PROSPECTS**

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

- Strengthen its strategic partnership with Sigma-tau to expand the Group's product portfolio.
- Intensify its marketing efforts for the three existing products in China by expanding its sales team and distribution network.
- Accelerate the in-house product development of Protein-free Calf Blood Extract Eye Gelatin and Hemocoagulase.
- Prepare the launch of license-in proprietary product <Irrodan Retard> in the PRC.
- Intensify the marketing of <ArginMax> and <Gliconorm> in Hong Kong.
- Registration of several license-in products in Hong Kong and the PRC.
- Pursue licensing opportunity for innovative products and/or technology from United States of America and Europe.

## **SPONSOR'S INTERESTS**

As at 30 September 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.

## **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 nine months ended 30 September 2004.

By order of the Board

**Lee Siu Fong**

*Chairperson*

Hong Kong, 5 November 2004

*As at the date thereof, Ms. Lee Siu Fong (Chairperson), Dr. Li Xiaoyi and Ms. Leelalertsuphakun Wanee are executive Directors; Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl are independent non-executive Directors.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the day of its posting and on the website of the Company at [www.leespharm.com](http://www.leespharm.com).*