



# 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 FIRST QUARTER 2005

### 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 announcement, 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 announcement.*

*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 ended 31 March 2005, together with the comparative unaudited consolidated figures for the corresponding period in 2004 as follows:

		<b>For the three months ended</b>	
		<b>31 March</b>	
	<i>Notes</i>	<b>2005</b>	2004
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
			(Restated)
Turnover	(2)	<b>8,841</b>	6,211
Cost of sales		<b><u>(2,804)</u></b>	<u>(2,180)</u>
Gross profit		<b>6,037</b>	4,031
Other revenue		<b>382</b>	29
Selling and distribution expenses		<b>(3,319)</b>	(2,718)
Research and development expenses		<b>(182)</b>	(137)
Administrative expenses		<b><u>(2,756)</u></b>	<u>(2,530)</u>
Profit (loss) from operations		<b>162</b>	(1,325)
Finance costs		<b><u>(134)</u></b>	<u>(145)</u>
Profit (loss) before taxation		<b>28</b>	(1,470)
Taxation	(3)	<b><u>11</u></b>	<u>2</u>
Profit (loss) before minority interest		<b>39</b>	(1,468)
Minority interest		<b><u>-</u></b>	<u>-</u>
Net profit (loss) for the period		<b><u><u>39</u></u></b>	<u><u>(1,468)</u></u>
Dividends		<b><u>-</u></b>	<u>-</u>
		<b><i>HK cents</i></b>	<i>HK cents</i>
Earnings (loss) per share			
Basic	(4)	<b><u><u>0.01</u></u></b>	<u><u>(0.51)</u></u>
Diluted	(4)	<b><u><u>0.01</u></u></b>	<u><u>(0.51)</u></u>

*Notes:*

**1. Basis of preparation**

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has converged all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board at 1 January 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards and HKFRSs issued by the HKICPA, 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.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

The accounting policies which have material impacts on the Group are set out below:

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the income statement. HKFRS 2 has been applied retrospectively for all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2005.

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, leasehold land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the

leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease. HKAS 17 has been applied retrospectively.

The effect of adopting HKAS 17 and HKFRS 2 on the consolidated income statements for the period ended 31 March 2005 and 31 March 2004 and on the consolidated balance sheet as at 31 March 2005 and 31 March 2004 are shown below:

*Effect of adopting HKAS 17 and HKFRS 2 on consolidated income statement:*

	<b>Three months ended 31 March 2005</b>		Three months ended 31 March 2004	
	<b>HKAS 17 HK\$'000</b>	<b>HKFRS 2 HK\$'000</b>	HKAS 17 HK\$'000	HKFRS 2 HK\$'000
(Increase) decrease in administrative expenses	<b>8</b>	<b>(48)</b>	8	(26)
Increase in taxation	<b>(1)</b>	<b>-</b>	(1)	-
Total increase (decrease) in profit	<b><u>7</u></b>	<b><u>(48)</u></b>	<b><u>7</u></b>	<b><u>(26)</u></b>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Increase (decrease) in basic earnings (loss) per share	<b><u>-</u></b>	<b><u>(0.01)</u></b>	<b><u>-</u></b>	<b><u>(0.01)</u></b>

*Effect of adopting HKAS 17 and HKFRS 2 on consolidated balance sheet:*

	<b>31 March 2005</b>		31 March 2004	
	<b>HKAS 17 HK\$'000</b>	<b>HKFRS 2 HK\$'000</b>	HKAS 17 HK\$'000	HKFRS 2 HK\$'000
Increase (decrease) in assets				
Property, plant and machinery	<b>(2,515)</b>	-	(2,573)	-
Lease premium for land (current and non-current)	<b>1,164</b>	-	1,191	-
Increase (decrease) in liabilities/equity				
Deferred tax liabilities	<b>(203)</b>	-	(209)	-
Employee share-based compensation reserve	-	<b>303</b>	-	129
Revaluation reserves	<b>(1,235)</b>	-	(1,235)	-
Exchange reserves	-	-	10	-
Accumulated losses	<b>87</b>	<b>(303)</b>	52	(129)

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except that certain presentation and disclosure of the accounts would be affected on the 2005 half year and annual reports.

## 2. Turnover

The principal activities of the Group are development, manufacturing and sales of pharmaceutical products. During the period, turnover represents the net amounts received and receivable for goods sold by the Group to outside customers and recognised as follows:

*Business segments:*

	Three months ended 31 March	
	2005 HK\$'000	2004 HK\$'000
Proprietary products	6,339	4,497
License-in products	2,502	1,714
	<u>8,841</u>	<u>6,211</u>

*Geographical segment:*

During the period ended 31 March 2005 and 2004, more than 90% of the Group's turnover was derived from activities conducted in the People's Republic of China (the "PRC" or "China"), no geographical segmental information is presented.

## 3. Taxation

	Three months ended 31 March	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Current tax		
Hong Kong	–	–
PRC	–	–
	<u>–</u>	<u>–</u>
Deferred tax		
Credit of current period	11	2
	<u>11</u>	<u>2</u>
Taxation attributable to the Group	<u>11</u>	<u>2</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 ended 31 March 2005(2004: Nil).

#### 4. Earnings (loss) per share

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

	For the three months ended 31 March	
	2005	2004 (Restated)
Profit (loss):		
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	<u><b>HK\$39,000</b></u>	<u>HK\$(1,468,000)</u>
Number of shares of the Company (the "Shares"):		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<b>346,225,000</b>	289,225,000
Effect of dilutive potential ordinary shares:		
Options and warrants	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u><b>346,225,000</b></u>	<u>289,225,000</u>

No diluted earnings (loss) per share in 2005 and 2004 have been presented because the exercise prices of the options and warrants 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	Employee share-based compensation reserve HK\$'000	Exchange reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	33,227	9,200	3,921	–	(99)	(26,681)	19,568
Adoption of HKFRS 2	–	–	–	255	–	(255)	–
Adoption of HKAS 17	–	–	(1,235)	–	–	71	(1,164)
At 1 January 2005, as restated	33,227	9,200	2,686	255	(99)	(26,865)	18,404
Employee share option benefits	–	–	–	48	–	–	48
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	–	(14)	–	(14)
Profit for the period	–	–	–	–	–	39	39
At 31 March 2005	<u>33,227</u>	<u>9,200</u>	<u>2,686</u>	<u>303</u>	<u>(113)</u>	<u>(26,826)</u>	<u>18,477</u>
At 1 January 2004	24,887	9,200	3,921	–	(14)	(23,413)	14,581
Adoption of HKFRS 2	–	–	–	103	–	(103)	–
Adoption of HKAS 17	–	–	(1,235)	–	10	45	(1,180)
At 1 January 2004, as restated	24,887	9,200	2,686	103	(4)	(23,471)	13,401
Employee share option benefits	–	–	–	26	–	–	26
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	–	(57)	–	(57)
Loss for the period	–	–	–	–	–	(1,468)	(1,468)
At 31 March 2004, as restated	<u>24,887</u>	<u>9,200</u>	<u>2,686</u>	<u>129</u>	<u>(61)</u>	<u>(24,939)</u>	<u>11,902</u>

## 6. Comparative figures

Certain comparative figures have been re-classified to conform with current period's presentation.

### DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31 March 2005 (2004: Nil).

### FINANCIAL REVIEW

The Group's unaudited consolidated turnover for the three months ended 31 March 2005 reached a new high of approximately HK\$8.84 million, representing an increase of 42.34% over the corresponding period of 2004 and an increase of 9.39% over last quarter. Despite downward price pressure, the Group's flagship product, <Livaracine> and <Yallaferon> achieved an increase of 27.53% and 11.18% in turnover respectively over the corresponding period of last year fuelled by a significant growth of 52.91% and 83.81% in volume respectively. Sales

of the Group's license-in product <Carnitene> also expanded markedly, registering an increase of 46.66% over the corresponding period of last year. <Livaracine>, <Carnitene> and <Yallaferon> contributed to 57.82%, 27.68% and 13.67% of total turnover respectively. The Group's overall gross profit margin had slightly been improved from 64.90% in 2004 to 68.28% this year because of increase of sales and reduction in production cost from economies of scales on maximizing production capacity.

Selling and distribution expenses to turnover ratio reduced from 43.76% in 2004 to 37.54% in quarter under review due to introduction of a more effective budgetary system.

The Group recorded profit results in the first quarter of 2005. Net profit for the period under review was HK\$39,000 representing a turn-around from net loss in last quarter and the corresponding period last year of HK\$629,000 and HK\$1,468,000 respectively. The achievement of profitability signified a breakthrough of the Group into a new era of growth in both revenue and profit and validation of the Group's strategy.

## **BUSINESS REVIEW**

During the three months ended 31 March 2005, the Group has achieved the following objectives:

- Maintained the growth momentum in sales.
- Expanded the sales and marketing network.
- Completed the supplementary data for <Hemocoagulase> and made submission to the State Food and Drug Administration of the PRC.
- Submitted the registration application for <Hibor> in both China and Hong Kong.
- Submitted the registration application in Hong Kong for <Plixym>, <Clopi> and <Czartan>.
- The multi-center clinical trial of <Yallaferon> on treatment of cervicitis was progressing well. The participated centers have completed more than 50% of the enrollment for this 320 patients study and expected to complete by mid-year 2005.
- The clinical trial conducted to generate safety and efficacy data for the Group's in-house product <Protein-free Calf Blood Extract Eyg-gel> is making good progress ahead of schedule. The participated centers have completed more than 50% of the enrollment for 480 patients study and the study is recruiting rapidly and proceeding satisfactorily.
- The Group has obtained an exclusive distribution rights on <Vasdilat>, isosorbide mononitrate, from an Italian pharmaceutical company, Marvecs Services S.r.l. for China and Hong Kong market. <Vasdilat> is a type of vasodilator with effects on both arteries and veins and is indicated for the prevention and long-term treatment of angina pectoris associated with coronary artery disease.

## **PROSPECT**

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

- Intensify its efforts on knowledge-level education and foundation for the Group's products.
- Strengthen its sales and marketing team to widen the Group's coverage and customer bases.
- Pursue innovative and proprietary technology for licensing from/with America and Europe.



- Forge closer partnership with Sigma-Tau to bring about the synergy between two companies.
- Conclude the clinical trial of <Protein-free Calf Blood Extract Eyg-gel> and make application for new drug certification.
- Conclude the clinical trial of <Yallaferon> on treatment of cervicitis and make application for new indication.
- Make submission of registration application in both China and Hong Kong for several license-in products.

## **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 of the GEM Listing Rules throughout the three months ended 31 March 2005.

## **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 three independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has reviewed with management and auditors this unaudited quarterly report for the period ended 31 March 2005 before recommending it to the Board for approval.

## **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 2005.

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

By order of the Board  
**Lee Siu Fong**  
*Chairperson*

Hong Kong, 12 May 2005

*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).*