



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)

(Stock Code: 8221)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

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

| | <i>Notes</i> | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|--------------|--|---------------------------------------|---|---------------------------------------|
| | | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> (Restated) | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> (Restated) |
| Turnover | (2) | 10,160 | 8,435 | 29,568 | 22,313 |
| Cost of sales | | (3,363) | (3,132) | (9,593) | (7,698) |
| Gross profit | | 6,797 | 5,303 | 19,975 | 14,615 |
| Other revenue | | 309 | 29 | 1,062 | 495 |
| Selling and distribution expenses | | (4,060) | (3,386) | (11,516) | (9,466) |
| Research and development expenses | | (217) | (153) | (639) | (441) |
| Administrative expenses | | (2,723) | (2,361) | (8,401) | (7,497) |
| Profit (loss) from operations | | 106 | (568) | 481 | (2,294) |
| Finance costs | | (84) | (145) | (323) | (454) |
| Profit (loss) before taxation | | 22 | (713) | 158 | (2,748) |
| Taxation | (3) | 7 | 10 | 33 | 24 |
| Profit (loss) attributable to shareholders | | 29 | (703) | 191 | (2,724) |
| Dividends | | – | – | – | – |
| | | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| Earnings (loss) per Share | | | | | |
| Basic | (4) | 0.01 | (0.22) | 0.06 | (0.91) |
| Diluted | (4) | N/A | N/A | N/A | 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 HKFRSs issued by Hong Kong Institute of Certified Public Accountants (“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.

HKICPA has converged all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board at 1 January 2005. As a result, the HKICPA has aligned HKFRS with the requirements of IFRSs in all material respects.

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 Effect 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 standards which have material effects 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 period 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 was 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 statement for the periods ended 30 September 2005 and 30 September 2004 and on the consolidated balance sheet as at 30 September 2005 and 31 December 2004 are shown below:

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

| | Three months ended 30 September 2005 | | Three months ended 30 September 2004 | |
|--|---|---------------------|---|---------------------|
| | HKAS 17 HK\$'000 | HKFRS 2 HK\$'000 | HKAS 17 HK\$'000 | HKFRS 2 HK\$'000 |
| (Increase) decrease in administrative expenses | 8 | (55) | 7 | (49) |
| Increase in taxation | (1) | – | (2) | – |
| Total increase (decrease) in profit | <u>7</u> | <u>(55)</u> | <u>5</u> | <u>(49)</u> |
| | <i>HK cent</i> | <i>HK cent</i> | <i>HK cent</i> | <i>HK cent</i> |
| Increase (decrease) in basic earnings (loss) per share | <u>–</u> | <u>(0.02)</u> | <u>–</u> | <u>(0.02)</u> |

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

| | 30 September 2005 | | 31 December 2004 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | HKAS 17 HK\$'000 | HKFRS 2 HK\$'000 | HKAS 17 HK\$'000 | HKFRS 2 HK\$'000 |
| Increase (decrease) in assets | | | | |
| Property, plant and machinery | (2,650) | – | (2,523) | – |
| Lease premium for land (current and non-current) | 1,176 | – | 1,168 | – |
| Increase (decrease) in liabilities/equity | | | | |
| Deferred tax liabilities | (208) | – | (203) | – |
| Employee share-based compensation reserve | – | 386 | – | 255 |
| Revaluation reserves | (893) | – | (893) | – |
| Exchange reserves | (37) | – | 37 | – |
| Accumulated losses | <u>276</u> | <u>(386)</u> | <u>296</u> | <u>(255)</u> |

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

The consolidated results for the three months and nine months ended 30 September 2005 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

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|----------------------|--|------------------|---|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Proprietary products | 6,798 | 5,396 | 19,957 | 15,624 |
| License-in products | 3,362 | 3,039 | 9,611 | 6,689 |
| | <u>10,160</u> | <u>8,435</u> | <u>29,568</u> | <u>22,313</u> |

Geographical segments

During the period ended 30 September 2005 and 2004, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

3. Taxation

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|------------------------------------|--|--------------------------------|---|--------------------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 (Restated) | 2005 HK\$'000 | 2004 HK\$'000 (Restated) |
| Current tax | | | | |
| Hong Kong | – | – | – | – |
| PRC | – | – | – | – |
| | – | – | – | – |
| Deferred tax | | | | |
| Credit of current period | 7 | 10 | 33 | 24 |
| Taxation attributable to the Group | <u>7</u> | <u>10</u> | <u>33</u> | <u>24</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 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 30 September | | For the nine months ended 30 September | |
|--|--|----------------------|---|------------------------|
| | 2005 | 2004 (Restated) | 2005 | 2004 (Restated) |
| Earnings (loss): | | | | |
| Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share | <u>HK\$29,000</u> | <u>HK\$(703,000)</u> | <u>HK\$191,000</u> | <u>HK\$(2,724,000)</u> |
| Number of shares: | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | 346,225,000 | 317,105,435 | 346,225,000 | 298,586,314 |
| Effect of dilutive potential ordinary shares: options and warrants | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | <u>346,225,000</u> | <u>317,105,435</u> | <u>346,225,000</u> | <u>298,586,314</u> |

No diluted earnings per share in 2005 and 2004 has been presented because the exercise prices of the options and warrants are higher than the market price of the shares for the nine months ended 30 September 2005 and 2004.

5. Share capital and reserves

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Merger difference <i>HK\$'000</i> | Revaluation reserve <i>HK\$'000</i> | Employee share-based compensation reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---|---|---|--|--|--------------------------|
| At 1 January 2005 | 17,311 | 33,227 | 9,200 | 3,921 | – | (99) | (26,681) | 36,879 |
| Adoption of HKFRS 2 | – | – | – | – | 255 | – | (255) | – |
| Adoption of HKAS 17 | – | – | – | (893) | – | 37 | (296) | (1,152) |
| At 1 January 2005, as restated | 17,311 | 33,227 | 9,200 | 3,028 | 255 | (62) | (27,232) | 35,727 |
| Warrant issue net expenses | – | (731) | – | – | – | – | – | (731) |
| Employee share option benefits | – | – | – | – | 131 | – | – | 131 |
| Exchange rate adjustment not recognised in consolidated income statement | – | – | – | 75 | – | 258 | – | 333 |
| Profit for the period | – | – | – | – | – | – | 191 | 191 |
| At 30 September 2005 | <u>17,311</u> | <u>32,496</u> | <u>9,200</u> | <u>3,103</u> | <u>386</u> | <u>196</u> | <u>(27,041)</u> | <u>35,651</u> |
| At 1 January 2004 | 14,461 | 24,887 | 9,200 | 3,921 | – | (14) | (23,413) | 29,042 |
| Adoption of HKFRS 2 | – | – | – | – | 103 | – | (103) | – |
| Adoption of HKAS 17 | – | – | – | (914) | – | 58 | (323) | (1,179) |
| At 1 January 2004, as restated | 14,461 | 24,887 | 9,200 | 3,007 | 103 | 44 | (23,839) | 27,863 |
| Employee share option benefits | – | – | – | – | 103 | – | – | 103 |
| Exchange rate adjustment not recognised in consolidated income statement | – | – | – | 24 | – | (91) | – | (67) |
| Loss for the period | – | – | – | – | – | – | (2,724) | (2,724) |
| At 30 September 2004, as restated | <u>14,461</u> | <u>24,887</u> | <u>9,200</u> | <u>3,031</u> | <u>206</u> | <u>(47)</u> | <u>(26,563)</u> | <u>25,175</u> |

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

BUSINESS REVIEW AND PROSPECTS

Business review

The Group continued to be profitable by achieving a profit of HK\$29,000 for the third quarter 2005. Turnover for the nine months ended 30 September 2005 amounted to HK\$ 29.6 million, representing a 32.5% increase over the same period in previous year. Turnover for the third quarter 2005 amounted to HK\$10 million which represented a 20% increase over that of 2004. During the period under review, all three major products of the Group, *Livaracine*[®], *Yallaferon*[®] and *Carnitene*[®] registered 39%, 45% and 22% increase in volume sales respectively over the same period of last year.

The gross profit ratio was improved from 65.5% for 2004 to 67.6% for the nine months ended 30 September 2005. The improvement was attributable to better cost control and economy of scale driven by the increase of sales volume.

Owing to more stringent control over costs, the percentage of selling expenses over turnover decreased from 42% for 2004 to 39% for the period under review. The percentage of administrative expenses over turnover also reduced from 33.6% for 2004 to 28.4% for the current period.

The profit for the nine months ended 30 September 2005 was HK\$191,000 which shown a significant improvement comparing with the loss of HK\$2,724,000 incurred for the same period in last year.

Prospects

On 26 September 2005, the Group signed an agreement with International Biomedical System S.r.l. of Italy for distribution of *HORUS*^{®S} Coronary Stent with delivery system and Challenger PTCA Balloon Catheter for Hong Kong and People's Republic of China. *HORUS*^{®S} is approved by the European Union and is marketed in Italy and other countries. *HORUS*^{®S} stent is superior to existing bare metal stents and comparable to the new drug eluting stents. It offers substantial price advantage over drug eluting stent which makes it competitive in the market place. The Group is now marketing *HORUS*^{®S} stent in Hong Kong and it is expected that it could help to further broaden the revenue base of the Group.

The new drug application for Hemocoagulase from snake venom has been approved by the SFDA of China. This is the third new drug certificate received by the Group in China since its establishment and it is a major milestone of development of the Group. With new drug application of *Eyprotor*[®] submitted during the quarter as well, the Group is expected to launch two products next year which will significantly improve the Group's profitability. Workshop expansion and renovation are underway and upon completion, the Group will be equipped with four GMP certified production lines, namely lyophilized powder for injection, small volume for injection, topical gel and eye gel.

During the nine months ended 30 September 2005, deferred research and development cost increased by HK\$1.3 million and research and development expenses for the period under review amounted to HK\$639,000. This demonstrates the Group's commitment on developing new products which is an important basis for the continued growth of the Group. In particular, we are fully aware of the threat posed by avian flu to the public health of our global community. We have been working with PRB Pharmaceuticals Inc. of US for more than two years for the development of *Vira-38*, an all natural preparation for combating flu in general and avian flu in particular. The main component of *Vira-38*, *v38 AMF-1*, was tested in reputed laboratories of both China and US and found to be effective in inhibition of avian flu H5N1 virus. As a result, we have recently seen an drastic increase of interest in the Group's product *Vira-38*. We are committed to continue our contribution to the global fight against avian flu.

FINANCIAL REVIEW

The Group's financial position remained healthy. As at 30 September 2005, the Group has cash and bank balances and pledged bank deposits of HK\$4.6 million. The bank and other borrowings was HK\$4.8 million at period end.

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 nine months ended 30 September 2005.

As at the date of this announcement, the Board comprises the following directors:

Executive directors:

Ms. Lee Siu Fong (*Chairperson*)

Dr. Li Xiaoyi

Ms. Leelalertsuphakun Wane

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 November 2005

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.leespharm.com.