



LEE'S PHARM.

Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司

06
Interim Report

李氏大藥廠

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CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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.

BUSINESS REVIEW AND PROSPECTS

Business review

For the second quarter of 2006, turnover was HK\$8.9 million, representing a decrease of 15.6% from the same period last year and down 14.9% from the first quarter. Turnover for the six months ended 30 June 2006 was HK\$19.4 million, representing a slight 0.1% decrease over the same period in previous year. This was mainly attributable to decrease in sales of proprietary products in the PRC by HK\$1.97 million from the same period last year. The decline in sales was offset by the increase in sales of the Carnitene, a licence-in product, by HK\$1.9 million over the same period last year. Growth in sales of Carnitene in the first half of 2006 continued to be strong with a 31% increase from the same period last year.

Gross profit for first half of 2006 was HK\$12.29 million, representing a decrease of HK\$0.89 million over same period last year. It was attributable to a decline in gross profit margin to 63.4% from 67.9% for the same period last year. Gross profit margin of Carnitene is relatively lower comparing with proprietary products. The increase in sales proportion of Carnitene caused a decline in gross profit margin of the Group.

The Group recorded a loss of HK\$1.66 million for the six months ended 30 June 2006 in which substantial amount was resulted from the Group's efforts to restructure its Hong Kong operation. The Group has decided to shift its focus in Hong Kong on ethical pharmaceuticals and medical device that are also the focal point of the Group's China operation so that synergy could be created between two operations. In addition, the Group had increased its spending in human resources and marketing in the second quarter in preparation for the launch of a new product which contributed to its loss too.



Prospects

In the second quarter of 2006, the Group received marketing approval from China SFDA for its new product Slounase (Hemocoagulase). Subsequently, the Group had passed the GMP site-inspection conducted by the China SFDA for its small volume injection production facility. The Group is working on final launch preparation and the product is expected to launch in the market as soon as before the end of August. The pre-marketing of Slounase has been well received by the market and we expect to see significant improvement in both revenue and profitability once we launch the product into the market.

During the quarter, the Group also received approval for clinical study for its licensed-in product Bemiparin. The Group is in discussion with investigators for detailed preparation of the studies which are expected to start as soon as in August. This approval is an important milestone for the Group's strategy to broaden its revenue through partnership with US or European company. The Group expected to see more approvals for clinical studies for its licensed-in products which will further enrich the Group's pipeline.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2006, the Group had cash and bank balances and pledged bank deposits of approximately HK\$5.56 million (31 December 2005: HK\$5.89 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 1.2 times (31 December 2005: 1.53 times).

As at 30 June 2006, the Group had bank and other borrowings of approximately HK\$6.32 million and shareholders' funds of approximately HK\$34.32 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was 2.2% (31 December 2005: 1.78%)

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Charges on Group Assets

As at 30 June 2006, the buildings and machinery of the Group with an aggregate net book value of approximately HK\$9.19 million (31 December 2005: HK\$7.76 million) was pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of HK\$2.01 million were pledged as securities for banking facilities as at 30 June 2006 (31 December 2005: HK\$2.01 million).

Foreign Exchange Exposure

Currently, the Group earned revenue and incurred cost mainly in Renminbi, Hong Kong dollars, US dollars and European dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group did not use any type of derivatives to hedge against any foreign currency fluctuations.

Employee Information

As at 30 June 2006, the Group employed a total of 180 full time employees (31 December 2005: 179 employees) with a total staff cost for the six months ended 30 June 2006 of approximately HK\$5 million (including directors' remuneration).

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

Contingent Liabilities

As at 30 June 2006, the Group had no contingent liabilities.



UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	(2)	8,915	10,567	19,392	19,408
Cost of sales		(2,814)	(3,426)	(7,102)	(6,230)
Gross profit		6,101	7,141	12,290	13,178
Other revenue		367	371	631	753
Selling and distribution expenses		(3,727)	(4,137)	(6,950)	(7,456)
Research and development expenses		(284)	(240)	(545)	(422)
Administrative expenses		(3,755)	(2,922)	(6,720)	(5,678)
(Loss) profit from operations	(4)	(1,298)	213	(1,294)	375
Finance costs		(125)	(105)	(274)	(239)
(Loss) profit before taxation		(1,423)	108	(1,568)	136
Taxation	(5)	(22)	15	(93)	26
(Loss) profit attributable to shareholders		(1,445)	123	(1,661)	162
Dividends	(6)	-	-	-	-
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share					
Basic	(7)	(0.42)	0.04	(0.48)	0.05
Diluted	(7)	N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	(Unaudited) At 30 June 2006 HK\$'000	(Audited) At 31 December 2005 HK\$'000
Non-current assets			
Property, plant and equipment	(8)	14,291	11,806
Intangible assets		13,904	13,832
Lease premium for land		1,142	1,142
Goodwill		3,900	3,900
		33,237	30,680
Current assets			
Lease premium for land		28	28
Inventories		2,393	3,751
Trade receivables	(9)	3,386	3,716
Other receivables, deposits and prepayments		3,484	2,777
Pledged bank deposits		2,014	2,014
Cash and bank balances		3,549	3,876
		14,854	16,162
Current liabilities			
Trade payables	(10)	2,140	509
Other payables		4,591	3,527
Short term borrowings		5,542	6,526
Taxation payable		116	–
		12,389	10,562
Net current assets		2,465	5,600
Total assets less current liabilities		35,702	36,280
Capital and reserves			
Share capital	(11)	17,311	17,311
Reserves		17,007	18,349
Shareholders' equity		34,318	35,660
Non-current liabilities			
Long term loans		780	–
Deferred tax liabilities		604	620
		35,702	36,280

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from (used in) operating activities	2,573	(1,160)
Net cash used in investing activities	(2,641)	(4,860)
Net cash used in financing activities	(280)	(160)
Decrease in cash and cash equivalents	(348)	(6,180)
Cash and cash equivalents at beginning of the period	5,890	12,539
Effect of foreign exchange rate changes	21	(171)
Cash and cash equivalents at end of the period	5,563	6,188
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	3,549	4,176
Pledged bank deposits	2,014	2,012
	5,563	6,188



UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger difference	Revaluation reserve	Share-based compensation reserve	Exchange reserve	Accumulated losses	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1 January 2006	17,311	32,496	9,200	3,106	443	183	(27,079)	35,660
Share option benefits	-	-	-	-	110	-	-	110
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	37	-	172	-	209
Loss for the period	-	-	-	-	-	-	(1,661)	(1,661)
At 30 June 2006	17,311	32,496	9,200	3,143	553	355	(28,740)	34,318
At 1 January 2005	17,311	33,227	9,200	3,028	255	(62)	(27,232)	35,727
Warrant issue net expenses	-	(731)	-	-	-	-	-	(731)
Share option benefits	-	-	-	-	76	-	-	76
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	11	-	13	-	24
Profit for the period	-	-	-	-	-	-	162	162
At 30 June 2005	17,311	32,496	9,200	3,039	331	(49)	(27,070)	35,258

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation of financial statements and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants 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.

The accounting policies and method of computation used in preparing the unaudited consolidated interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2005.

The condensed consolidated interim financial statements 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.



3. Segment information

Business segments

The following table presents turnover and results of the Group's business segments for the six months ended 30 June 2006.

	Proprietary products		License-in products		Consolidated	
	2006 <i>HKS'000</i>	2005 <i>HKS'000</i>	2006 <i>HKS'000</i>	2005 <i>HKS'000</i>	2006 <i>HKS'000</i>	2005 <i>HKS'000</i>
Segment turnover	11,193	13,159	8,199	6,249	19,392	19,408
Segment results	949	2,810	(1,519)	(299)	(570)	2,511
Interest income					13	21
Unallocated expenses					(737)	(2,157)
(Loss) profit from operations					(1,294)	375
Finance costs					(274)	(239)
(Loss) profit before taxation					(1,568)	136
Taxation					(93)	26
(Loss) profit attributable to shareholders					(1,661)	162

Geographical segments

During the six months ended 30 June 2006 and 2005, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.



4. (Loss) profit from operations

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):				
Depreciation of property, plant and equipment	415	349	800	741
Amortisation of lease premium for land	7	7	13	14
Amortisation of intangible assets	162	138	323	276
Total depreciation and amortisation	584	494	1,136	1,031
Other receivable written off	177	–	177	–
Allowance for bad and doubtful debts	520	30	513	47
Interest income	(21)	(19)	(50)	(43)



5. Taxation

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current tax				
PRC income tax	(34)	–	(116)	–
Deferred tax				
Credit of current period	12	15	23	26
Taxation attributable to the Group	(22)	15	(93)	26

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit for the period. PRC income tax is calculated at the rates applicable in the PRC.

6. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).



7. **(Loss) earnings per share**

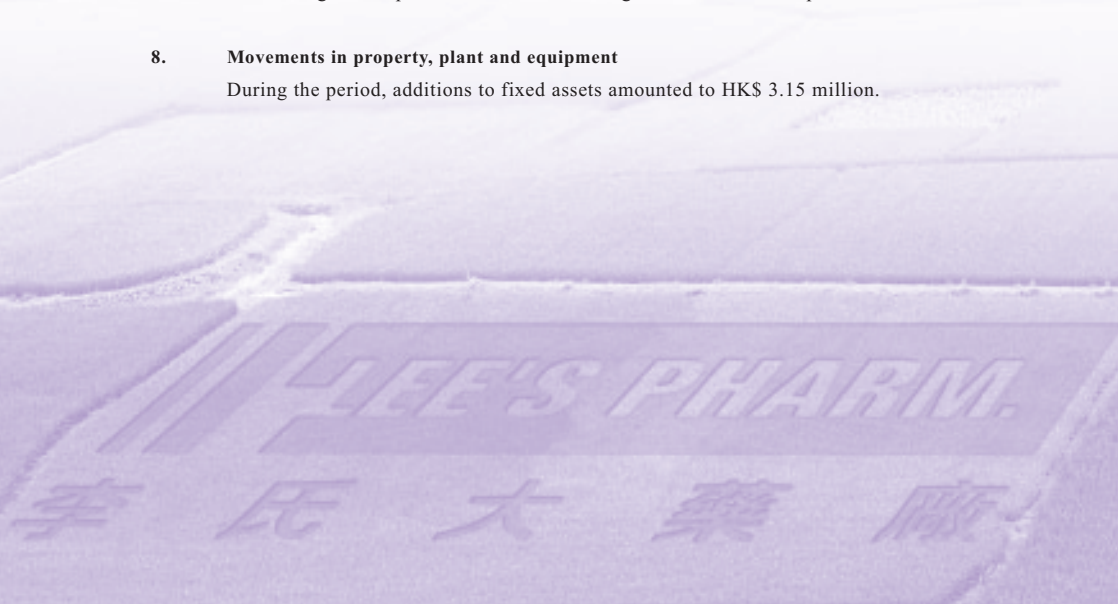
The calculation of basic (loss) earnings per share is based on the following data:

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2006	2005	2006	2005
Net (loss) profit attributable to shareholders for the purpose of basic (loss) earnings per share	HK\$(1,445,000)	HK\$123,000	HK\$(1,661,000)	HK\$162,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	346,225,000	346,225,000	346,225,000	346,225,000

The diluted loss per share for the six months ended 30 June 2006 is not presented as the potential ordinary shares in respect of outstanding share options and warrants are anti-dilutive. No diluted earnings per share for previous period in 2005 has been presented as the exercise prices of the outstanding share options and warrants are higher than the market price of shares.

8. **Movements in property, plant and equipment**

During the period, additions to fixed assets amounted to HK\$ 3.15 million.



9. Trade receivables

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers. The following is an aging analysis of trade receivables at the respective balance sheet dates.

	(Unaudited) 30 June 2006 HK\$'000	(Audited) 31 December 2005 HK\$'000
1-90 days	2,556	3,044
91-180 days	80	616
181-365 days	1,337	112
Over 365 days and under 3 years	31	48
	4,004	3,820
Less: Allowance for bad and doubtful debts	(618)	(104)
	3,386	3,716

10. Trade payables

The following is an aging analysis of trade payables at the respective balance sheet dates.

	(Unaudited) 30 June 2006 HK\$'000	(Audited) 31 December 2005 HK\$'000
1-90 days	2,104	437
91-180 days	18	5
181-365 days	1	25
Over 365 days	17	42
	2,140	509

11. Share capital

	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
Authorised:		
At 30 June 2006 and 31 December 2005	1,000,000,000	50,000

Issued and fully paid:

	Number of ordinary shares of HK\$0.05 each		Amount	
	30 June 2006	31 December 2005	30 June 2006 HK\$'000	31 December 2005 HK\$'000
At beginning and end of the period	346,225,000	346,225,000	17,311	17,311

12. Commitments

	(Unaudited) 30 June 2006 HK\$'000	(Audited) 31 December 2005 HK\$'000
Capital commitments in respect of acquisition of property, plant and equipment		
Contracted for but not provided in the financial statements	158	2,313

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SHARE OPTION SCHEME

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.

Movements of share option during period ended 30 June 2006 were as follows:

Grantees	Date of Grant	Outstanding at 1.1.2006	Number of share options			Outstanding at 30.06.2006
			Granted	Exercised/ cancelled	Lapsed	
Directors						
Lee Siu Fong	26.06.2002	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	–	–	–	289,000
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	–	500,000	–	–	500,000
Chan Yau Ching, Bob	13.01.2003	100,000	–	–	–	100,000
	25.06.2004	300,000	–	–	–	300,000
	11.07.2005	100,000	–	–	–	100,000
Lam Yat Cheong	11.07.2005	300,000	–	–	–	300,000
Tsim Wah Keung, Karl	11.07.2005	300,000	–	–	–	300,000
<i>Sub-total of Directors</i>		6,379,000	500,000	–	–	6,879,000
Employees						
	26.06.2002	50,000	–	–	–	50,000
	13.01.2003	400,000	–	–	–	400,000
	25.06.2004	6,250,000	–	–	(300,000)	5,950,000
	11.07.2005	3,750,000	–	–	–	3,750,000
Consultant	02.06.2006	–	500,000	–	–	500,000
<i>Sub-total of employees and consultant</i>		10,450,000	500,000	–	(300,000)	10,650,000
Grand total		16,829,000	1,000,000	–	(300,000)	17,529,000

Notes:

1. Particulars of share options:

Date of Grant	Exercise period	Exercise price per share <i>HK\$</i>
26.06.2002	(i) 50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012 (ii) unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	0.280
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	0.218
11.07.2005	(iii) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (iv) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	0.159
02.06.2006	(v) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (vi) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175

Saved as disclosed above, as at 30 June 2006, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

The fair value of the total options granted in the period measured as at the date of grant on 2 June 2006 was HK\$150,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 90.11 per cent;
2. expected annual dividend yield of 0 per cent;
3. the estimated expected life of the options granted during the year is 10 years; and
4. the quoted interest rate for the Exchange Fund Notes with maturity in 2016 was 4.88 per cent. which was adopted to calculate the fair value of options granted on 2 June 2006.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2006, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

1. Long positions

- (a) Ordinary shares of HK\$0.05 each of the Company

Name	Capacity and nature	Notes	% of issued share capital		
			Number of shares	Total	
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	<u>163,290,625</u>	165,625,000	47.84
Leelalertsuphakun Wanee	Beneficial owner		1,140,000		
	Interest of corporation	(i)	<u>163,290,625</u>	164,430,625	47.49
Li Xiaoyi	Interest of spouse	(ii)	16,000,000	16,000,000	4.62

Notes:

- (i) 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 Siu Fong and Ms. Leelalertsuphakun Wanee.
- (ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Mauro Bove	Beneficial owner	1,000,000	1,000,000
Chan Yau Ching, Bob	Beneficial owner	500,000	500,000
Lam Yat Cheong	Beneficial owner	300,000	300,000
Tsim Wah Keung, Karl	Beneficial owner	300,000	300,000
		6,879,000	6,879,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	165,625,000	1,600,000	167,225,000
Leelalertsuphakun Wanee	164,430,625	289,000	164,719,625
Li Xiaoyi	16,000,000	2,890,000	18,890,000
Mauro Bove	–	1,000,000	1,000,000
Chan Yau Ching, Bob	–	500,000	500,000
Lam Yat Cheong	–	300,000	300,000
Tsim Wah Keung, Karl	–	300,000	300,000

2. Short positions

No short positions of Directors and chief executive in the Share or underlying 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 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed “Directors’ and Chief Executive’s Interests” above, at no time during the six months ended 30 June 2006 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.



INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the following 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) 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:

1. Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

Name	Capacity	Notes	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		155,290,625	44.85
Defiante Farmaceutica, Lda	Beneficial owner		57,000,000	16.46
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	4.62
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	4.62

(b) Underlying shares

Name	Capacity and nature	Notes	Nature of Underlying shares	Number of underlying Shares
Defiante Farmaceutica, Lda	Beneficial owner		Unlisted warrants	69,245,000
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	2,890,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	155,290,625	–	155,290,625
Defiante Farmaceutica, Lda	57,000,000	69,245,000	126,245,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	16,000,000	2,890,000	18,890,000

Notes:

- (i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.
- (ii) Dr. Li Xiaoyi, 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. Short positions

No short positions of other persons and substantial shareholders in the Share or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 30 June 2006, so far as is known to the Directors, no person was 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.

LEE'S PHARM.

李氏大藥廠

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealings throughout the six months period ended 30 June 2006.

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 six months ended 30 June 2006.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the six months ended 30 June 2006.

AUDIT COMMITTEE

An audit committee was set up with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

The audit committee has reviewed with the management and auditors this unaudited interim report for the six months ended 30 June 2006 before recommending it to the Board for approval.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of Listing Rules throughout the six months ended 30 June 2006, with deviations from provision B.1 of the Code.

Under provision B.1 of the Code, a remuneration committee should be established to make recommendations to the Board on the policy and structure for all remuneration of directors and senior management. The Board considers that the Company needs not set up a remuneration committee as remuneration of directors and senior management are determined by the Board in accordance with the Articles of Association of the Company.

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

Executive directors:

Ms. Lee Siu Fong (*Chairperson*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

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, 11 August 2006

LEE'S PHARM.

李氏大藥廠