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)

INTERIM RESULTS ANNOUNCEMENT 2003

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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 purpose only*

BUSINESS REVIEW AND PROSPECTS

Business Review

During the six months ended 30 June 2003, the Company and its subsidiaries (collectively referred to as the "Group") had made significant progress in all areas as a dynamic and integrated biopharmaceutical company engaging in development, manufacturing and sales and marketing of proprietary drugs in the People's Republic of China (the "PRC").

The Group's new drug research and development efforts had been shifted into top gear during the period under review. Applications for extended clinical trials of the Group's two flagship products, Livaracine and Yallaferon® had been approved by the State Food and Drug Administration (the "SFDA"). Successful completion of both clinical trials could significantly expand both products' clinical applications. The Group's application for clinical trial of its license-in product, Anti-Fungus Peptides had been successfully submitted to SFDA and the relevant approval is expected to be obtained before end of 2003. In order to continue to build a solid pipeline, the Group has successfully entered into exclusive licensing agreement with the National Institutes of Health ("NIH") of the United States of America ("US"), a world renowned biomedicine research institute for a proprietary technology to be developed as product for promotion of hair growth.

Meanwhile, the Group is in the process of introducing its Livaracine and Yallaferon® into Hong Kong market and the new drug applications for them have been filed with the Department of Health, Hong Kong. It is expected that final approval will be obtained in the fourth quarter of 2003. In addition, two licensed products, one from Abiogen Pharma S.p.a. of Italy and the other from Pliva Pharmaceutical Industry, Inc. of Croatia have been submitted for marketing authorization in Hong Kong and are expected to be launched into the market before end of 2003.

The Group's manufacturing capability and capacity have been significantly improved during the first half of 2003. Two key parts of the Group's production line of lyophilized powder for injection were replaced which results in more than doubling of capacity and marked improvement of product quality. Furthermore, the Group has continued to strive for better quality of its products. After over a year of relentless efforts on refining the Group's manufacturing process of Livaracine, the Directors believe that the Group has successfully elevated its quality to the same level of imported products and head and shoulder above its domestic competitors in the PRC.

During the first half of 2003, the Group has more than doubled its resources on its sales and marketing efforts which yielded an 83% sales increase over the same period of last year. It has continued to implement its marketing and sales strategy, leveraging on external distributors' expertise and resources. The Group's distribution network has continued to expand, providing a solid foundation for persistent sales growth. The entire sales organization has since become lean and efficient which saw the selling and distribution expenses to turnover ratio improved from 40.95% to 33.95% in six months' time.

The improvement of both production and marketing has resulted in an overall elevation of business performance of the Group. The loss before minority interest achieved 40.02% reduction for the first half of 2003 as compared to corresponding period of 2002 despite a significant increase in administrative expenses after the Company's listing on the Stock Exchange.

Prospects

The Group is optimistic about its prospects for the second half of 2003 and is confident to achieve the similar growth rate as in the first half of the year. The Group intends to adopt a proactive, open and enterprising attitude in seizing opportunities to build up future success. For the two existing products, Livaracine and Yallaferon®, the Group expects to continue its sales efforts with same intensity and to keep up with the pace of growth recording in the first half of the year. In addition, with respect to two potential exclusive distribution agreements which are in final discussion for products that are readily available for launching in the PRC market, the Group is in a position to register a substantial increase in sales once final agreements are reached. In order to improve the competitiveness of its existing business, the Group will accelerate the development of its new products to the best extent possible. Currently, the Group is in advanced discussion with US company and institution for two exciting and proprietary technologies. Should the discussion come to fruition, it would significantly augment the Group's strong pipeline which will in turn provide sustainable growth for the Group. Last, but not the least, the Group is going to explore new markets in Asia for its proprietary products and license-in drugs with initial focus on Hong Kong marketing. The open up of a new front will undoubtedly broaden the revenue base of the Group and accelerate the realization of the Group's overall profitability in the near future.

FINANCIAL POSITION

Turnover

The Group's unaudited consolidated turnover for the six months ended 30 June 2003 reached HK$10.16 million, representing an 83.05% increase over that of last year, which was the result of the enhancement of marketing activities and the widely use of Yallaferon® in the prevention of severe acute respiratory syndrome ("SARS") in the PRC. The sales of Livaracine and Yallaferon® for the first half of 2003 increased by 19.67% and 267.66% respectively over the corresponding period last year.

Gross profit margin

The gross profit margin for the second quarter of 2003 was 78.76%, representing an increase of 8.87% over the same period last year. This was mainly attributed to production cost reduction from economies of scales on maximizing production capacity and improvement in production equipments. The sales volume of Yallaferon® in the second quarter had jumped by 4.4 folds compared to the first quarter of this year, and its unit cost was reduced by 27.35%.

Profit (loss) for the period

The Group recorded its first profit results in the second quarter of 2003. The unaudited profit before minority interest was HK$677,000 for the three months ended 30 June 2003, representing a turn-around from the unaudited loss before minority interest of HK$458,000 in the corresponding period last year. Excluding the loss shared by minority interest resulted from surplus on property revaluation in last year, the loss before minority interest has been diminished from HK$1.66 million in the first half of 2002 to HK$1.00 million in the first half of 2003, representing a 40.02% reduction.

Liquidity, financial resources and treasury policies

The Group's primary source of funding was cash proceeds from placing of 75,000,000 ordinary shares of HK$0.05 each in the share capital of the Company (the "Shares") on 15 July 2002 (the "Listing Date"). As at 30 June 2003, the Group had net current assets of HK$11.55 million (31 December 2002: HK$6.70 million), out of which an amount of HK$13.58 million (31 December 2002: HK$14.06 million) was cash and bank balances. Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation, development requirements and/or investments in future.

As at 30 June 2003, the Group has long term debts of approximately HK$7.69 million and shareholders' funds of approximately HK$33.42 million. The gearing ratio (long term debts to the sum of shareholders' funds and long term debts) was 18.71 per cent. as at 30 June 2003 (31 December 2002: 4.71 per cent.).

The Group adopts conservative treasury policies in cash and financial management and makes all bank deposits in either Hong Kong dollars, US dollars, or in the local currencies of the operating subsidiaries, which as a result, keeping a minimum exposure to foreign exchange risks. The Group's liquidity and financing arrangements are reviewed regularly.

Charges on Group Assets

As at 30 June 2003, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$11.38 million (31 December 2002: HK$11.69 million) have been pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of about HK$3.02 million were pledged as securities for banking facilities as at 30 June 2003 (31 December 2002: HK$3.00 million).

Foreign Exchange Exposure

Currently, the Group mainly earns revenue and incurs costs in Renminbi. The Directors believe that the Group does not have problems in meeting its foreign exchange requirements. The Group did not use any type of derivatives to hedge against any foreign currency fluctuations.

Contingent Liabilities and Commitment

The Group did not have any significant contingent liabilities as at 30 June 2003 and 31 December 2002. The lease commitment and capital commitment of the Group as at 30 June 2003 were HK$401,000 (31 December 2002: HK$720,000) and HK$222,491 (31 December 2002: HK$444,982) respectively.

EMPLOYEE INFORMATION

As at 30 June 2003, the Group has 129 (31 December 2002: 115) full-time employees in Hong Kong and the PRC with a total staff costs for the six months ended 30 June 2003 of approximately HK$3.40 million.

The Group offers a comprehensive remuneration package and a range of additional benefits to its employees, including participation in provident fund and medical benefits. In order to motivate quality employees and attract high caliber candidates to join the Group, the Group has adopted a pre-IPO share option scheme and share option scheme.

USE OF PROCEEDS

Up to 30 June 2003, the net proceeds from the initial placing had been utilized in line with the terms stipulated in the prospectus issued by the Company dated 3 July 2002 (the "Prospectus"), particulars of which are set out as follows:

	Budgeted amount to be used up to 30 June 2003 as extracted from the Prospectus *HK$'000*	**Actual amount used up to 30 June 2003** *HK$'000*	*Notes*
Production	3,547	1,037	(a)
Sales and marketing	1,159	1,159	
Research and development	1,741	824	(b)
Repayment of third party loans	2,984	1,592	(c)
Additional working capital	1,008	1,008	
	10,439	5,620	

Notes:

(a) In view of the level of sales increment and the progress of new products development, the Directors delayed the budgeted expansion of various production facilities and systems. It is expected new equipment for expansion may not be required until 2004. Please also refer to "Progress against business objectives" section for further details.

(b) The funding for research and development has not been used up as the development progress of various projects have been delayed due to reasons stated in "Progress against business objectives" section. Though the schedule of self developed projects has been hindered, sales of several license-in drugs will generate the Group's total revenue to grow even faster than expected.

(c) The loan due to a third party lender with expiry in December 2002 has not been repaid because the loan is a kind of local Government subsidize to high technology enterprises and the Company continues to receive such support.

PROGRESS AGAINST BUSINESS OBJECTIVES

Business Objectives from 1 January 2003 to 30 June 2003	Actual Progress from 1 January 2003 to 30 June 2003
Purchase new equipment for raw material workshop to increase the production capacity	Due to changes in the new drug registration regulations that came into effect in December 2002, the classification of Hemocoagulase has been changed from chemical drug to biological drug. As a result, additional experiments were required to comply with the new regulations and the registration file was needed to be reworked which led to a significant delay of subsequent planned clinical trial. As a matter of fact, the application for clinical trial of Hemocoagulase has just been submitted to the SFDA. Therefore, the Hemocoagulase project has been delayed and the need to purchase related equipment has been pushed back. The expected date of purchase will be in the first quarter of 2004.
Establish Wuxi branch office to expand the Group's sales efforts	Having reviewed the Group's sales and marketing strategy from time to time, the Group has decided that current focus should be on strengthening the existing offices of Guangzhou, Shanghai and Beijing, rather than setting up new office in Wuxi. The Group believes that such approach is the most cost efficient and brings the most positive impact on the Group's sales and marketing efforts. Since then, the Group has more than doubled the resources to those existing offices.
Commence phase I clinical trial of Anti-Fungus Peptide	The clinical trial has not been commenced as the Group's application is still under the review of SFDA. The clinical trial is expected to be commenced in the first quarter of 2004.
Enter into phase II clinical trial on Declotana	The application is still under the review of SFDA and approval for clinical trial is expected in the third quarter of 2003.

Business Objectives from 1 January 2003 to 30 June 2003	Actual Progress from 1 January 2003 to 30 June 2003
Apply for/conclude clinical trial of Protein-free Calf Blood Extract Eye Gelatin	An initial opinion on application of phase II clinical trial was just received from SFDA in June 2003 and meeting with them has been held regarding additional experiment for the application. It was agreed in the meeting that SFDA will expedite the application upon receiving the required additional information. The Group expects to initiate clinical trial in the fourth quarter of 2003.
Commence/conclude clinical trial of Livaracine for new indication	As the approval of clinical trial was just received in April 2003 which was behind the original plan, the tentative schedule for the project was then delayed. Moreover, due to the SARS epidemic, the initiation of this clinical trial has been pushed back. It is now expected that patient recruitment will start on the fourth quarter of 2003 and conclusion of the clinical trial will be on second quarter of 2004.
Apply for clinical trial of Topical gel Livaracine	The development works are still underway and few technical issues have to be addressed before it is ready for application. The Directors expect to file the application for clinical trial before the end of this year but not later than the first quarter of 2004.
Apply for clinical trial of Oral Livaracine	Due to some technical problems encountered during the development of the oral dosage form, the Group has faced significant delay on filing application for clinical trial. Currently, the Group does not expect to file the application before the end of 2004.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2003	2002 (Restated)	**2003**	2002 (Restated)
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	(2)	**6,941**	2,925	**10,163**	5,552
Cost of sales		**(1,474)**	(809)	**(2,483)**	(1,545)
Gross Profit		**5,467**	2,116	**7,680**	4,007
Other revenue		**596**	85	**561**	75
Selling and distribution expenses		**(2,522)**	(1,377)	**(3,450)**	(2,535)
Administrative expenses		**(2,754)**	(1,143)	**(5,512)**	(2,918)
Profit (loss) from operations		**787**	(319)	**(721)**	(1,371)
Finance costs		**(134)**	(147)	**(310)**	(296)
Profit (loss) before taxation		**653**	(466)	**(1,031)**	(1,667)
Taxation	(4)	**24**	8	**36**	8
Profit (loss) before minority interest		**677**	(458)	**(995)**	(1,659)
Minority interest		**–**	1,621	**–**	1,621
Net profit (loss) for the period		**677**	1,163	**(995)**	(38)
Dividends	(5)	**–**	–	**–**	–
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings (loss) per Share					
Basic	(6)	**0.23**	0.56	**(0.34)**	(0.02)
Diluted	(6)	**0.23**	0.55	**(0.34)**	(0.02)

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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The principal activities of the Group are development, manufacturing and sales of pharmaceutical products.

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.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2002, except for the adoption of the following new and revised SSAP, which are effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the period.

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. Opening accumulated losses at 1 January 2002 have not been changed as no cumulative effect of the change in policy on the results for the periods prior to 2002. The balance on the Group's properties revaluation reserve at 1 January 2003 has been reduced by HK$692,000, representing the deferred tax liability after minority interest recognised in respect of the revaluation surplus on the Group's properties at that date. The effect of the change is an increased credit to income taxes in the current period of HK$36,000 (2002: HK$8,000).

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 PRC for the three months and six months ended 30 June 2003 and 2002, no segmental information is presented accordingly.

4. Taxation

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax				
Hong Kong	**–**	–	**–**	–
PRC	**–**	–	**–**	–
	–	–	**–**	–
Deferred tax				
Credit of current period	**24**	8	**36**	8
Taxation attributable to the Group	**24**	8	**36**	8

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 six months ended 30 June 2003 (2002: Nil).

5. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

6. Earnings (loss) per share

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

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2003	2002	**2003**	2002
Earnings (loss):				
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	**HK$677,000**	HK$1,163,000	**HK$(995,000)**	HK$(38,000)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**289,225,000**	208,785,440	**289,225,000**	205,154,558
Effect of dilutive potential ordinary shares: options	**820,896**	1,500,000	**820,896**	1,500,000
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**290,045,896**	210,285,440	**290,045,896**	206,654,558

SPONSOR'S INTERESTS

As at 30 June 2003, the Company's sponsor, Asia Investment Capital Limited ("Asia Investment Capital") 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 Asia Investment Capital, Asia Investment Capital 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules during the period.

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 six months ended 30 June 2003.

Lee Siu Fong
Chairperson

Hong Kong, 14 August 2003

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