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)

INTERIM RESULTS ANNOUNCEMENT 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*

BUSINESS REVIEW AND PROSPECTS

Business Review

During the six months ended 30 June 2004, Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") continue to achieve significant progress in all areas forward the goal of being a strong and integrated biopharmaceutical company.

The revenue has grown 10.46% over the same period of last year and 36.55% over the previous six month period. Both self-developed products, <Yallaferon> and <Livaracine> have shown impressive growth momentum and contributed substantially to the growth of overall revenue. In addition, the license-in product, L-Carnitine performed satisfactorily during the period and also helped to fuel the growth of overall revenue.

During the period, the Group has intensified its marketing activity by establishing a department of medical promotion. This department is devoted for knowledge-based education and promotion, delivering product information directly to health care professionals like doctors. During the period under review, the Group has held product seminars in over 100 hospitals and participated in several provincial and/or national professional meetings.

The Group has also made progress in its research and development programs for the first six months. Requested supplemental data for both Anti-fungus Peptide and Declotana has been prepared and submitted to the State Food and Drug Administration (the "SFDA") for further review. Clinical study of <Yallaferon> for herpes zoster has been successfully completed with results that clearly demonstrate Yallaferon's efficacy and safety in treating herpes zoster. Application is being made to the SFDA to expand the indications of <Yallaferon> which will provide additional growth opportunities for <Yallaferon>.

Prospects

Subsequent to the period under review, the Group has entered into a subscription agreement with Defiante Farmaceutica, Lda ("Defiante") on 30 July 2004, a member of Sigma-Tau Group. Sigma-Tau Group is a leading research-based Italian pharmaceutical company with annual revenue of equivalent to approximately HK$6 billion and approximately 2,400 employees worldwide. Therapeutic areas in which the Sigma-Tau Group's research and development are focused include oncology, neurology, cardiovascular, gastroenterology, metabolism and immunology, with more than 40 projects, 25 indications studied with 17 molecules. Sigma-Tau Group has operating subsidiaries throughout Europe and the United States and maintains a presence in all of the world's major pharmaceutical markets. All these activities are in fact complementary to the existing business activities of the Group and will result in bringing about business synergies for both parties who are at present predominantly operating in different geographical areas.

The board of directors of the Company (the "Board') considers that the subscription and the issue of warrants to Defiante provides an opportunity to raise additional funds for the Group's working capital and future investment purposes while strengthening its financial position, and broadening the capital base of the Company. More importantly, such strategic partnership could transform the Group into a stronger player in China's pharmaceutical market and propel the Group onto a new level. The directors of the Company (the "Directors") consider that the Sigma-Tau Group will, through this transaction, also bring to the Group the benefit of its almost 50 years of experience in pharmaceutical business worldwide, permitting the Group's possible access to its strong research and development expertise and new products and technologies. This may significantly improve the product pipeline of the Group to better leverage on its established sales and distribution network in China. The Directors also consider and confirm that upon completion of these transactions and with due regard to the business nature of the Sigma-Tau Group and although as a result there will be changes in the shareholdings structure of the Company, the Company will still be continuing its existing business activities. The Directors have no intention to bring about any material change to any areas of such existing business activities.

The proceeds from the subscription and for the exercise in full of the warrants shall be no less than HK$24 million and will be used for working capital to further expand the Group's sales and distribution network in China, acquiring new products and technologies and to upgrade the existing manufacturing facilities, and for future investment purposes.

FINANCIAL POSITION

Financial Review

The Group's unaudited consolidated turnover for the three and six months ended 30 June 2004 amounted to HK$7.67 million and HK$13.88 million respectively, representing an increase of 10.52% and 36.61% over that of last year despite the remarkable results recorded during SARS period last year. The increase was mainly attributable to commencing the sales of license-in product <L-Carnitine>and an increase of 60.21% of <Livaracine>.

For the second quarter of 2004, turnover of <L-Carnitine> and <Livaracine> were approximately HK$1.88million and HK$4.21 million accounting for 24.51% and 54.89% respectively of the Group's total turnover.

Regardless of the effect of SARS which increase fourfold the quarterly sales volume last year, turnover of <Yallaferon>was HK$1.48 million in the second quarter of 2004 and compared to HK$0.93 million recorded in the first quarter, represented an increase of 30.08% on a quarter to quarter basis.

The gross profit margin was 68.88% in the second quarter of 2004, compared to 78.76% for the same period in 2003. The drop was because of sales of license-in product having lower gross margin of 37.54% and production cost substantially reduced during SARS period last year. As the sales volume of <Yallaferon>jumped by fourfold in the second quarter of 2003, its production cost reduced from economies of scales by maximizing production capacity.

Selling and distribution expenses for the second quarter of 2004 increased as compared with that of corresponding period of 2003 due to the set-up of sales and marketing department in Hong Kong in November 2003 for the Group's license-in product to be launched in the Hong Kong market.

Loss from operations in the second quarter of 2004 was HK$0.53 million, whereas the Group recorded a profit of approximately HK$0.68 million for the same period of last year due to the remarkable results during SARS period. The Group's operating loss has been narrowed down as evidenced by a decrease of 63.26% on a quarter to quarter basis.

Liquidity, financial resources and treasury policies

The Group financed its operations with banking facilities and balance of proceeds from the Company's initial public offer.

As at 30 June 2004, the Group had cash and bank balances and the pledged bank deposits of approximately HK$ 6.73 million (31 December 2003: HK$12.53 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 1.13 times (31 December 2003: 1.71 times). 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 and development requirements in future.

As at 30 June 2004, the Group has long term debts of approximately HK$0.99 million and shareholders' funds of approximately HK$27.00 million. Its gearing ratio (long term debts to shareholders' funds plus long term debts) was 3.54% as at 30 June 2004 (31 December 2003: 14.31%).

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 2004, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$10.97 million (31 December 2003: HK$11.13 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$6.00 million (31 December 2003: HK$8.33 million) were pledged as securities for banking facilities as at 30 June 2004.

Employee Information

As at 30 June 2004, the Group employs a total of 145 full time employees (31 December 2003: 149) with a total staff cost for the six months ended 30 June 2004 of approximately HK$4.27million.

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.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs 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.

Contingent Liabilities

As at 30 June 2004, the Company had issued corporate guarantee of HK$6.83 million (31 December 2003: HK$5.00 million) and fixed deposits of HK$6.00 million (31 December 2003: HK$8.33 million) to banks in respect of banking facilities granted to its subsidiary of which approximately HK$4.73 million had been utilized.

USE OF PROCEEDS

Up to 30 June 2004, the net proceeds after deducting the listing expenses had been utilized in line with the terms stipulated in the prospectus issued by the Company dated 3 July 2002 (the "Prospectus") and applied as follows:

	Planned use of proceeds according to the Prospectus *HK$'000*	**Actual amount utilized from 15 July 2002 (the date of listing) to 30 June 2004** *HK$'000*	*Notes*
Production	5,634	1,438	(a)
Sales and marketing	4,458	3,024	(b)
Research and development	2,874	1,887	(c)
Repayment of third party loans	2,984	1,592	(d)
Additional working capital	1,008	5,008	(e)
	16,958	12,949	

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 2005. Please also refer to "Comparison of Business Objectives and Actual Progress" section for further details.

(b) The original planned fund for advertising and marketing of new products has not been used as the progress of new products development has been delayed due to various reasons. For details, please refer to "Comparison of Business Objectives and Actual Progress" section.

(c) The funding for research and development has not been used up as the development progress of various projects has been delayed due to reasons stated in "Comparison of Business Objectives and Actual Progress".

(d) 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 subsidy to high technology enterprises and the Company continues to receive such support.

(e) Proceed used for working capital has been raised due to consistent operating loss of the Company.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGESS

The following is a comparison of the actual business progress to the business objectives as set out in the Prospectus:

Business Objectives up to 30 June 2004 as stated in Prospectus	Actual Progress up to 30 June 2004
Production:	
• Install and commission new purification system for purification workshop	• Due to the delay of product approval for Declotana, the installation of this system has been postponed. Timing for installing this system will depend on the progress of drug approval process.
• Purchase new equipment for raw material workshop to increase the production capacity	• As a result of a more cost-effective manufacturing process, there is no longer a need for new equipment.
• Install and commission imported lyophilized machine to increase the production capacity	• Domestic lyophilized machine instead of imported one had been installed and commissioned due to cost effectiveness. Maximum production capacity has been increase by 100%
• Install and commission new imported filling machine for gel workshop	• Since there is still enough capacity available, the installation will be postponed until the needs arise.
Sales and marketing:	
• Establish Chengdu and 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 offices in Chengdu and 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.
• Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts	• Sales and marketing team of Guangzhou sales office and Shanghai branch office have been restructured in year 2003. Additional staffs have been recruited to strengthen the whole sales team in the PRC.

Business Objectives up to 30 June 2004 as stated in Prospectus	Actual Progress up to 30 June 2004
• Launch new products into the market: (i) Hemocoagulase (ii) Protein-free calf blood extract eye gelatin (iii) Livaracine for new indication (iv) Anti-fungus peptide (v) Declotana	• Since the new products were not ready for market due to delay in research and development progress as discussed below, the respective launching exercise was postponed accordingly.
Research and development:	
• Declotana: (i) submit application for clinical trials (ii) enter phase II clinical trials	• The requested supplemental data was submitted to SFDA in June 2004. The delay of progression is due to the complexity of new drug development.
• Topical Gel Livaracine: (i) submit application for clinical trials (ii) commence phase II clinical trials	• We are reviewing the economical prospect of this product now. Thus, no progress has been made so far.
• Hemocoagulase: submit application for clinical trials	• Application has been submitted but has yet to receive feedback from SFDA.
• Protein-free Calf Blood Extract Eye Gelatin: Commence phase II clinical trials	• The clinical study is now at preparation stage. Site selection is under-way and study should commence in next quarter.
• Livaracine for new indication: Commence phase II clinical trials	• This study has been postponed as a result of prioritizing.
• Anti-fungus Peptide: (i) commence phase I clinical trials (ii) commence phase II clinical trials	• The requested supplemental data has been submitted to SFDA and approval of clinical study is expected in third quarter.
• Heparanase Inhibitor: Commence phase II clinical trials	• The project has been postponed as a result of prioritizing.
• Oral Livaracine: Commence phase II clinical trials	• This project has been postponed as a result of prioritizing.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2004	2003	**2004**	2003
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	(2)	**7,667**	6,941	**13,878**	10,163
Cost of sales		**(2,386)**	(1,474)	**(4,566)**	(2,483)
Gross Profit		**5,281**	5,467	**9,312**	7,680
Other revenue		**437**	596	**466**	561
Selling and distribution expenses		**(3,362)**	(2,522)	**(6,080)**	(3,450)
Administrative expenses		**(2,736)**	(2,754)	**(5,385)**	(5,512)
Profit (loss) from operations		**(380)**	787	**(1,687)**	(721)
Finance costs		**(164)**	(134)	**(309)**	(310)
Profit (loss) before taxation		**(544)**	653	**(1,996)**	(1,031)
Taxation	(4)	**12**	24	**16**	36
Profit (loss) before minority interest		**(532)**	677	**(1,980)**	(995)
Minority interest		**–**	–	**–**	–
Net profit (loss) for the period		**(532)**	677	**(1,980)**	(995)
Dividends	(5)	**–**	–	**–**	–
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings (loss) per Share					
Basic	(6)	**(0.18)**	0.23	**(0.68)**	(0.34)
Diluted	(6)	**(0.18)**	0.23	**(0.68)**	(0.34)

NOTES TO THE UNAUDITED CONDENDSED 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 the disclosure requirements 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 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.

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

Business segments

The following table presents turnover, results and certain asset, liability and expenditure information for the six months ended 30 June 2004 of the Group's business segments.

	Proprietary products		License-in products		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**10,228**	10,163	**3,650**	–	**13,878**	10,163
Segment results	**1,857**	2,744	**(1,653)**	–	**204**	2,744
Interest income					**23**	77
Unallocated expenses					**(1,914)**	(3,542)
Loss from operations					**(1,687)**	(721)
Finance costs					**(309)**	(310)
Loss before taxation					**(1,996)**	(1,031)
Taxation					**16**	36
Loss before minority interests					**(1,980)**	(995)
Segment assets	**24,191**	24,648	**13,937**	–	**38,128**	24,648
Unallocated assets					**5,015**	22,450
Total assets					**43,143**	47,098
Segment liabilities	**11,938**	12,316	**3,996**	–	**15,934**	12,316
Unallocated liabilities					**214**	1,358
Total liabilities					**16,148**	13,674
Other segment information: Capital additions	**82**	831	**52**	–	**134**	831
Depreciation and amortisation	**972**	1,035	**47**	–	**1,019**	1,035
Allowance for bad and doubtful debts	**(44)**	(60)	**–**	–	**(44)**	(60)

Geographical segments

During the period ended 30 June 2004 and 2003, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

4. Taxation

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax				
Hong Kong	**–**	–	**–**	–
PRC	**–**	–	**–**	–
	–	–	**–**	–
Deferred tax				
Credit of current period	**12**	24	**16**	36
Taxation attributable to the Group	**12**	24	**16**	36

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 2004 (2003: Nil).

5. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Ni1).

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	
	2004	2003	**2004**	2003
Earnings (loss):				
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	**HK$(532,000)**	HK$677,000	**HK$(1,980,000)**	HK$(995,000)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**289,225,000**	289,225,000	**289,225,000**	289,225,000
Effect of dilutive potential ordinary shares: options	**370,435**	820,896	**370,435**	820,896
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**289,595,435**	290,045,896	**289,595,435**	290,045,896

SPONSOR'S INTERESTS

As at 30 June 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.

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.

CHANGE OF DIRECTORSHIP

Mr. Leung Yun Fai resigned as independent non-executive director of the Company with effect from 30 June 2004. Mr. Lam Yat Cheong was then appointed.

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 to 5.45 of the GEM Listing Rules throughout the three months ended 30 June 2004.

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, 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 ended 30 June 2004.

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 an executive Director, Ms. Lee Siu Fong and two independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob and Mr. Lam Yat Cheong. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group.

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 2004.

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

Executive directors:
Ms. Lee Siu Fong *(Chairperson)*
Dr. Li Xiaoyi
Ms. Leelalertsuphakun Wanee

Independent non-executive directors:
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong

By order of the Board
Lee Siu Fong
Chairperson

Hong Kong, 13 August 2004

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