LEE'S PHARM.
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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 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*

The Board of the Company announces the unaudited condensed consolidated results of the Group for the six months ended 30 June 2005 and 30 June 2004 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 30 June		For the six months ended 30 June	
		2005	2004	**2005**	2004
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
			(Restated)		(Restated)
Turnover	(2)	**10,567**	7,667	**19,408**	13,878
Cost of sales		**(3,426)**	(2,386)	**(6,230)**	(4,566)
Gross profit		**7,141**	5,281	**13,178**	9,312
Other revenue		**371**	437	**753**	466
Selling and distribution expenses		**(4,137)**	(3,362)	**(7,456)**	(6,080)
Research and development expenses		**(240)**	(151)	**(422)**	(288)
Administrative expenses		**(2,922)**	(2,606)	**(5,678)**	(5,136)
Profit (loss) from operations		**213**	(401)	**375**	(1,726)
Finance costs		**(105)**	(164)	**(239)**	(309)
Profit (loss) before taxation		**108**	(565)	**136**	(2,035)
Taxation	(4)	**15**	12	**26**	14
Profit (loss) before minority interest		**123**	(553)	**162**	(2,021)
Minority interest		**–**	–	**–**	–
Net profit (loss) for the period		**123**	(553)	**162**	(2,021)
Dividends		**–**	–	**–**	–
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings (loss) per Share					
Basic	(5)	**0.04**	(0.19)	**0.05**	(0.70)
Diluted	(5)	**N/A**	(0.19)	**N/A**	(0.70)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**(Unaudited) At 30 June 2005** *HK$'000*	(Audited) (Restated) At 31 December 2004 *HK$'000*
Non-current assets			
Property, plant and equipment		**11,645**	11,772
Intangible assets		**12,096**	11,869
Lease premium for land		**1,131**	1,141
Goodwill		**3,900**	–
		28,772	24,782
Current assets			
Lease premium for land		**27**	27
Inventories		**5,231**	3,882
Amount due from a related company		**–**	104
Trade receivables		**4,341**	3,581
Other receivables, deposits and prepayments		**3,405**	3,126
Pledged bank deposits		**2,012**	2,012
Cash and bank balances		**4,176**	10,527
		19,192	23,259
Current liabilities			
Amount due to related companies		**–**	386
Trade payables		**2,024**	94
Trust receipts		**–**	1,607
Other payables		**5,363**	4,742
Bank and other borrowings		**4,695**	4,837
		12,082	11,666
Net current assets		**7,110**	11,593
Total assets less current liabilities		**35,882**	36,375
Capital and reserves			
Share capital	(6)	**17,311**	17,311
Reserves	(6)	**17,947**	18,416
		35,258	35,727
Minority interest		**–**	–
Non-current liabilities			
Deferred tax liabilities		**624**	648
		35,882	36,375

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 Hong Kong Accounting Stardard ("HKAS") 34 "Interim Financial Reporting" issued by the 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 June 2005 and 30 June 2004 and on the consolidated balance sheet as at 30 June 2005 and 31 December 2004 are shown below:

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

	Three months ended 30 June 2005		Three months ended 30 June 2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
(Increase) decrease in administrative expenses	**7**	**(28)**	7	(28)
Increase in taxation	**(1)**	**–**	(1)	–
Total increase (decrease) in profit	**6**	**(28)**	6	(28)
	HK cent	***HK cent***	*HK cent*	*HK cent*
Increase (decrease) in basic earnings (loss) per share	**–**	**(0.01)**	–	(0.01)

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

	30 June 2005		31 December 2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Increase (decrease) in assets				
Property, plant and machinery	**(2,503)**	**–**	(2,523)	–
Lease premium for land (current and non-current)	**1,158**	**–**	1,168	–
Increase (decrease) in liabilities/ equity				
Deferred tax liabilities	**(201)**	**–**	(203)	–
Employee share-based compensation reserve	**–**	**331**	–	255
Revaluation reserves	**(893)**	**–**	(893)	–
Exchange reserves	**(37)**	**–**	37	–
Accumulated losses	**276**	**(331)**	296	(255)

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 half year and annual reports.

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 2005.

	Proprietary products		**License-in products**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**13,159**	10,228	**6,249**	3,650	**19,408**	13,878
Segment results	**2,810**	1,872	**(299)**	(1,653)	**2,511**	219
Interest income					**21**	23
Unallocated expenses					**(2,157)**	(1,968)
Profit (loss) from operations					**375**	(1,726)
Finance costs					**(239)**	(309)
Profit(loss) before taxation					**136**	(2,035)
Taxation					**26**	14
Profit(loss) before minority interests					**162**	(2,021)

Geographical segments

During the period ended 30 June 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.

4. Taxation

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Current tax				
Hong Kong	**–**	–	**–**	–
PRC	**–**	–	**–**	–
	–	–	**–**	–
Deferred tax				
Credit of current period	**15**	12	**26**	14
Taxation attributable to the Group	**15**	12	**26**	14

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 2005 (2004: Nil).

5. 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	
	2005	2004	**2005**	2004
		(Restated)		(Restated)
Earnings (loss):				
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	**HK$123,000**	HK$(554,000)	**HK$162,000**	HK$(2,021,000)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**346,225,000**	289,225,000	**346,225,000**	289,225,000
Effect of dilutive potential ordinary shares: options and warrants	**–**	370,435	**–**	370,435
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**346,225,000**	289,595,435	**346,225,000**	289,595,435

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

6. Unaudited consolidated statement of changes in equity

	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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	–	–	–	–	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
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	–	–	–	–	54	–	–	54
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	24	–	(91)	–	(67)
Loss for the period	–	–	–	–	–	–	(2,021)	(2,021)
At 30 June 2004, as restated	14,461	24,887	9,200	3,031	157	(47)	(25,860)	25,829

DIVIDEND

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

BUSINESS REVIEW AND PROSPECTS

Business review

As a result of sequential increase in sales of 20% in second quarter, the Group recorded a turnover of HK$19.4 million for the first six months period, representing a 40% increase over the same period of last year. The continuing increase in turnover was achieved by ever intensified knowledge-based promotion with more than 150 seminars held in hospitals all over the PRC. During the period under review, all three major products of the Group, *Livaracine®*, *Yallaferon® and Carnitene®* registered 42%, 52% and 60% increase in volume sales respectively over the same period of last year.

Despite of downward pricing pressure, the gross margin of the Group was maintained steadily at 67.9% during the period by streamlining the production process and better economy of scale driven by the increase of sales volumes. Accordingly, the gross profit was increased by 41.5% during the period under review, compared with that of same period last year.

Through a more aggressive budgetary process, the Group had improved control over the selling expenses, evidenced by the decrease of percentage of selling expenses over turnover from 43.8% of same period of last year to 38.4% for the period under review. The result reflects the Group's relentless efforts to enhance the efficiency and effectiveness of its sales team.

Percentage of administrative expenses over turnover was also improved from 32.8% of the same period of last year to 26.4% for the period under review.

During the period, the Group had continued to commit more resources into research and development and had made a significant progress in some areas. The phase III clinical study of the Group's in-house product *Protein-free Calf Blood Extract Eye Gel* had been successfully concluded. A new drug application has been submitted to SFDA and approval is expected no later than first quarter of next year.

The enrolment for the Group's multi-center clinical trial of *Yallaferon®* on treatment of cervicitis has been successfully completed. It is expected that the study will be completed in the third quarter with subsequent application for expansion of indications.

In addition to in-house development, the Group has continued to enrich its product pipeline by reaching out to US or European pharmaceutical companies for partnership. During the period, the Group entered into a distribution agreement with G.P. Pharm, a Spanish company for the distribution of *Somatostatin* in Greater China. Negotiation and discussion are underway with other companies for the development and distribution of several proprietary products.

Following the breakthrough of profitability in the first quarter, the Group recorded a 215% increase in profit in the second quarter over that of first quarter of 2005. The resulted profit for the six months of HK$162,000 is a significant turnaround when compared with a loss of around HK$ 2 million in the same period in last year. The broadening of product portfolio and expansion of knowledge-based promotion effort will undoubtedly facilitate further improvement of the Group's overall financial performance.

Prospects

During the period, the group acquired 30% equity interest in Hefei Siu-Fung USTC Pharmaceutical Company Limited ("Zhaoke") at an acquisition cost of HK$3,900,000 and Zhaoke became a wholly owned subsidiary of the group thereafter. As Zhaoke is the flagship of the Group accounting for more than 90% of the Group's turnover, the wholly owned status of Zhaoke will provide an opportunity for the Group to increase its profit generating power and concentrate its management resources.

In the coming months, the Group will also start the preparation works for the launch of two in-house developed products, namely *Protein-free Calf Blood Extract Eye-Gel* and *Hemocoagulase* which is scheduled for next year. These two products will significantly broaden the revenue base and accelerate the growth of the Group.

In addition, the Group is planning to submit application of clinical study for a new in-house developed product and registration application for at least two imported products. These efforts will further boost the Group's performance in the future.

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 2005.

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 2005 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 2005, with deviations from code provision A.4.1, A.4.2 and B.1 of the Code.

Under the code provisions A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three year.

One of the independent non-executive directors, Dr. Bob Chan, is not appointed for a specific term.

According to the current Bye-laws of the Company, all the directors including non-executive directors (except managing director) are subject to the retirement by rotation at each annual general meeting. The Board proposed to amend the Bye-laws of the company in the next general meeting so that the managing director is subject to retirement by rotation.

Under the code provision B.1of 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 is now in the course of setting up a remuneration committee.

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 Wanee

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, 12 August 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.