



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 2006

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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**

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.

# UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

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

# CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2006 <i>HK\$'000</i>	(Audited) At 31 December 2005 <i>HK\$'000</i>
	<i>Notes</i>		
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
		<u>33,237</u>	<u>30,680</u>
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
		<u>14,854</u>	<u>16,162</u>
Current liabilities			
Trade payables	(10)	2,140	509
Other payables		4,591	3,527
Short term borrowings		5,542	6,526
Taxation payable		116	–
		<u>12,389</u>	<u>10,562</u>
Net current assets		<u>2,465</u>	<u>5,600</u>
Total assets less current liabilities		<u><u>35,702</u></u>	<u><u>36,280</u></u>
Capital and reserves			
Share capital		17,311	17,311
Reserves		17,007	18,349
Shareholders' equity		<u>34,318</u>	<u>35,660</u>
Non-current liabilities			
Long term loans		780	–
Deferred tax liabilities		604	620
		<u><u>35,702</u></u>	<u><u>36,280</u></u>

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Merger difference HK\$'000	Revaluation reserve HK\$'000	Share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total 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)
<b>At 30 June 2006</b>	<b>17,311</b>	<b>32,496</b>	<b>9,200</b>	<b>3,143</b>	<b>553</b>	<b>355</b>	<b>(28,740)</b>	<b>34,318</b>
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
<b>At 30 June 2005</b>	<b>17,311</b>	<b>32,496</b>	<b>9,200</b>	<b>3,039</b>	<b>331</b>	<b>(49)</b>	<b>(27,070)</b>	<b>35,258</b>

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

#### *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	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	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
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total depreciation and amortisation	<u>584</u>	<u>494</u>	<u>1,136</u>	<u>1,031</u>
Other receivable written off	177	–	177	–
Allowance for bad and doubtful debts	520	30	513	47
Interest income	<u>(21)</u>	<u>(19)</u>	<u>(50)</u>	<u>(43)</u>

#### 5. Taxation

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

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

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	<u>31</u>	<u>48</u>
	4,004	3,820
Less: Allowance for bad and doubtful debts	<u>(618)</u>	<u>(104)</u>
	<u>3,386</u>	<u>3,716</u>



## 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
	<u>2,140</u>	<u>509</u>

## 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.

## 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 announcement, 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

*This announcement will remain on the GEM website at [www.hkgem.com](http://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](http://www.leespharm.com).*