



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 2008

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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

The Group not only maintained its growth momentum in sales, but also accelerated its growth in profitability in the second quarter. Sales for the second quarter of 2008 were record high at HK\$32.27 million, representing a 43% sequential increase over the first quarter and a 76% increase over the same period last year. For the first six month period of 2008, revenue of HK\$54.78 million was recorded, an increase of 73% over the same period last year. Profit after tax for the second quarter increased significantly to HK\$8.17 million, representing a sequential increase of 95% over the first quarter and an increase of 153% over the second quarter of 2007. Profit after tax for first half year of 2008 significantly increased by 202% to HK\$12.36 million compared with same period last year.

The significant increase in turnover in the second quarter was driven by across the board increase of the Group's four existing products, namely *Yallaferon*®, *Livaracine*®, *Slounase*® and *Carnitene*®. Among them, both *Yallaferon*® and *Carnitene*® outpaced the others with 71% and 48% increase in sales respectively compared with that of first quarter.

Gross profit margin kept up with its upward improvement trend in second quarter, increasing to 71.6% from 70.7% of first quarter. For the first half year of 2008, gross margin increased to 71.2% from 68.7% of same period last year. The improvement was mainly the results of enhancing productivity and manufacturing efficiency for in-house developed products.

Selling and distribution expenses to turnover ratio continued its downward trend, reduced to 29% for the second quarter of 2008 from 31% for the first quarter. The reduction was also evidenced in the half year 2008 and a two point drop was achieved, compared to the first half year of 2007. The drop in ratio was mainly the results of benefiting from increase in economy of scale in sales.

The new drug application for the Group's in-house product *Eyprotor*® was approved by the China SFDA in May 2008. *Eyprotor*® is the fifth product developed in-house that have successfully obtained the marketing approval by China SFDA since 1997. Its approval further signifies the Group's ability to move technology from benchside to bedside. *Eyprotor*® is indicated for patients with corneal epithelium abrasion and it will be launched in the third quarter of 2008. Also in drug development, the Group submitted applications for marketing approval of both Challenger balloon and *Veroderm*® biofilm to the China SFDA in the second quarter. Approval for both products is expected by end of 2008 or early 2009.

Prospects

We are upbeat about the growth prospect of the Group in the remaining of the year and beyond. Besides the continuing sales growth of four existing products, the newly launched product Iron Proteinsuccinylate Oral Solution has been performing well and the market penetration is right on schedule. At the end of second quarter, the new product has been made available in 18 major cities or provinces such as Beijing, Shanghai and Tianjin. It is expected that the sales will increase significantly in the second half of 2008 and provide additional boost to the Group's growth momentum.

During the third quarter of 2008, the Group will undertake major renovation in its Hefei manufacturing facility to increase the production capacity and automation. Once it is completed, it will triple the current production output and provide greater assurance in product quality. It will lay a solid foundation to support the Group's continual growth in the future.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(2)	32,270	18,340	54,783	31,661
Cost of sales		(9,162)	(5,716)	(15,757)	(9,910)
Gross profit		23,108	12,624	39,026	21,751
Other revenue		628	319	1,187	435
Selling and distribution expenses		(9,307)	(5,718)	(16,242)	(10,164)
Research and development expenses		(481)	(370)	(798)	(707)
Administrative expenses		(4,811)	(3,155)	(9,115)	(6,465)
Profit from operations	(4)	9,137	3,700	14,058	4,850
Finance costs		(159)	(240)	(267)	(496)
Profit before taxation		8,978	3,460	13,791	4,354
Taxation	(5)	(807)	(228)	(1,427)	(261)
Profit attributable to shareholders		8,171	3,232	12,364	4,093
Dividends	(6)	2,074	–	2,074	–
Earnings per share		HK cents	HK cents	HK cents	HK cents
Basic	(7)	1.97	0.93	2.98	1.18
Diluted	(7)	1.94	0.87	2.94	1.11

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current Assets			
Property, plant and equipment	(8)	16,952	15,253
Intangible assets	(9)	23,487	17,800
Lease premium for land		1,275	1,212
Goodwill		3,900	3,900
		45,614	38,165
Current Assets			
Lease premium for land		33	31
Inventories		11,121	8,521
Trade receivables	(10)	8,480	9,043
Other receivables, deposits and prepayments		9,176	12,212
Pledged bank deposits		2,012	2,012
Time deposits		8,970	10,360
Cash and bank balances		10,714	6,254
		50,506	48,433
Current Liabilities			
Trade payables	(11)	3,227	5,809
Other payables		11,998	13,084
Short term borrowings	(12)	6,368	4,228
Tax payable		1,221	1,131
		22,814	24,252
Net Current Assets		27,692	24,181
Total Assets less Current Liabilities		73,306	62,346
Capital and Reserves			
Share capital	(13)	20,744	20,656
Reserves		51,025	40,169
Equity Attributable to Shareholders of the Company		71,769	60,825
Non-current Liabilities			
Deferred tax liabilities		1,385	1,071
Long-term borrowings	(12)	152	450
		1,537	1,521
		73,306	62,346

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HKS'000</i>	Share premium <i>HKS'000</i>	Merger difference <i>HKS'000</i>	Share-based		Exchange reserve <i>HKS'000</i>	Accumulated losses <i>HKS'000</i>	Total <i>HKS'000</i>
				Revaluation reserve <i>HKS'000</i>	compensation reserve <i>HKS'000</i>			
At 1 January 2008	20,656	44,154	9,200	3,463	851	1,679	(19,178)	60,825
Exercise of share options	88	329	-	-	(69)	-	-	348
Share option benefits	-	-	-	-	159	-	-	159
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	227	-	1,165	-	1,392
Profit for the period	-	-	-	-	-	-	12,364	12,364
2007 final dividend paid	-	-	-	-	-	-	(3,319)	(3,319)
At 30 June 2008	20,744	44,483	9,200	3,690	941	2,844	(10,133)	71,769
At 1 January 2007	17,311	32,496	9,200	3,237	666	827	(30,548)	33,189
Share option benefits	-	-	-	-	113	-	-	113
Exchange rate adjustment not recognized in consolidated income statement	-	-	-	83	-	294	-	377
Profit for the period	-	-	-	-	-	-	4,093	4,093
At 30 June 2007	17,311	32,496	9,200	3,320	779	1,121	(26,455)	37,772

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Accounting Standard (“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.

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 2007 except as described below.

For the current interim period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA which are effective for accounting period beginning on or after 1 March 2007 and 1 January 2008. The adoption of the new interpretations has no material effects on how the results and financial position for the current or prior accounting periods are prepared and presented.

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not early applied the following new revised HKFRSs relevant to the interim condensed consolidated financial statements that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2008

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 2008.

	Proprietary products		License-in products		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	32,431	17,431	22,352	14,230	54,783	31,661
Segment results	10,357	4,261	4,692	1,247	15,049	5,508
Interest income					97	60
Unallocated expenses					(1,088)	(718)
Profit from operations					14,058	4,850
Finance costs					(267)	(496)
Profit before taxation					13,791	4,354
Taxation					(1,427)	(261)
Profit attributable to shareholders					12,364	4,093

Geographical segments

During the six months ended 30 June 2008 and 2007, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information is presented.

4. Profit from operations

	(Unaudited)		(Unaudited)	
	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging :				
Depreciation of property, plant and equipment	650	513	1,228	1,005
Amortisation of lease premium for land	8	7	16	15
Amortisation of intangible assets	138	125	266	251
Total depreciation and amortisation	796	645	1,510	1,271
Bad debts provision and written off	18	19	89	34

5. Taxation

	(Unaudited)		(Unaudited)	
	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
The PRC	643	239	1,183	284
Deferred tax				
Provision (credit) of current period	164	(11)	244	(23)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Taxation attributable to the Group	807	228	1,427	261
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Hong Kong Profits Tax has not been provided as the Group had no estimated assessable profit in Hong Kong for the period.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

6. Dividends

	(Unaudited)		(Unaudited)	
	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interim dividend declared of HK\$0.005 (2007: Nil) per ordinary share based on issued share capital as at balance sheet date	2,074	–	2,074	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Interim dividend will be payable on 18 September 2008 to shareholders registered in the Company's Register of Members as at the close of business on 4 September 2008.

A 2007 final dividend of HK\$0.008 per share, totalling HK\$3,319,000 was paid in May 2008.

7. Earnings per share

The calculation of basic and diluted 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	
	2008	2007	2008	2007
Net profit attributable to shareholders for the purpose of basic and diluted earnings per share	<u>HK\$8,171,000</u>	HK\$3,232,000	<u>HK\$12,364,000</u>	HK\$4,093,000
<i>Number of shares:</i>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	414,820,055	346,225,000	414,514,835	346,225,000
Effect of dilutive potential ordinary shares: options and warrants	<u>6,117,316</u>	<u>26,159,400</u>	<u>6,425,898</u>	<u>23,094,541</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>420,937,371</u>	<u>372,384,400</u>	<u>420,940,733</u>	<u>369,319,541</u>

8. Movements in property, plant and equipment

During the period ended 30 June 2008, additions to property, plant and equipment amounted to HK\$1.98 million.

9. Movement in intangible assets

During the period ended 30 June 2008, additions to intangible assets amounted to HK\$5.175 million.

10. 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 balance sheet dates.

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
0-90 days	8,081	8,729
91-180 days	253	283
181-365 days	220	63
Over 365 days and under 3 years	129	75
	<hr/>	<hr/>
	8,683	9,150
Less: Allowance for bad and doubtful debts	(203)	(107)
	<hr/>	<hr/>
	8,480	9,043
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of trade receivables approximate to their fair values.

11. Trade payables

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

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
0-90 days	3,227	5,809
91-180 days	-	-
181-365 days	-	-
Over 365 days	-	-
	<hr/>	<hr/>
	3,227	5,809
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of trade payables approximate to their fair values.

12. Bank borrowings

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
Secured bank loans repayable:		
Within one year	6,368	4,228
More than one year but not exceeding two years	152	450
	<u>6,520</u>	<u>4,678</u>

The carrying amounts of bank borrowings are denominated in the following currencies:

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
Renminbi	3,420	1,605
Hong Kong dollars	3,100	3,073
	<u>6,520</u>	<u>4,678</u>

The effective interest rates of the Group range from 5.75% to 8.6%.

The carrying amounts of short-term bank borrowings approximate to their fair values.

13. Share capital

	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
<i>Authorised:</i>		
At 30 June 2008 and 31 December 2007	1,000,000,000	50,000

Issued and fully paid:

	Number of ordinary shares of HK\$0.05 each		Amount	
	Six months ended 30 June 2008 (Unaudited)	Year ended 31 December 2007 (Audited)	Six months ended 30 June 2008 (Unaudited) HK\$'000	Year ended 31 December 2007 (Audited) HK\$'000
At beginning of the period	413,125,000	346,225,000	20,656	17,311
Issue of new shares upon exercise of share options	1,750,000	1,050,000	88	53
Issue of new shares upon exercise of warrants	–	65,850,000	–	3,292
At end of the period	<u>414,875,000</u>	<u>413,125,000</u>	<u>20,744</u>	<u>20,656</u>

14. Related party transactions

During the period, the Group entered into the following transactions with related parties. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

(a) *Related party transactions*

Name of related parties	Notes	Nature of transactions	(Unaudited) For the six months ended 30 June	
			2008 HK\$'000	2007 HK\$'000
Sigma-Tau Group	(1)	Purchase of pharmaceutical product	<u>5,632</u>	<u>7,729</u>

Notes:

- (1) Defiante Farmaceutica, Lda is a shareholder of the Company which is also a member of Sigma-Tau Group.

(b) Compensation of key management personnel of the Group

	(Unaudited)	
	For the six months	
	ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Short-term employee benefits	1,916	1,600
Post-employment benefits	18	18
Share-based payments	51	54
	<u>1,985</u>	<u>1,672</u>
15. Capital commitments		
	(Unaudited)	(Audited)
	30 June	31 December
	2008	2007
	HK\$'000	HK\$'000
Capital commitments in respect of acquisition of property, plant and equipment	<u>1,796</u>	<u>–</u>
16. Pledged of assets		

As at 30 June 2008, leasehold land and buildings and machinery with an aggregate net book value of approximately HK\$10.3 million (31 December 2007: machinery of HK\$0.3 million) were pledged to banks 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 2008 (31 December 2007: HK\$2.01 million).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 1 September 2008 to Thursday, 4 September 2008 (both days inclusive). In order to establish entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 29 August 2008.

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 2008.

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 2008 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 2008, 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 (*Chairman*)

Ms. Leelalertsuphakun Wanee

Dr. Li Xiaoyi

Non-executive director:

Mr. 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

Chairman

Hong Kong, 12 August 2008

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.