

INTERIM REPORT 2003



Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司\*

(incorporated in the Cayman Islands with limited liability)

\* For identification purposes only

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*This report, 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 report 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

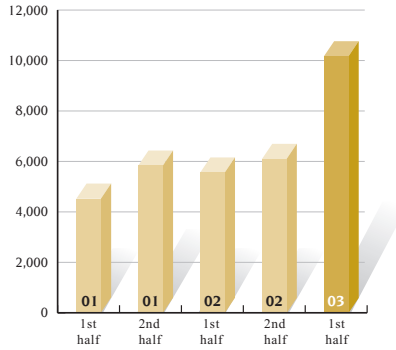
## HIGHLIGHTS

- Turnover for the six months ended 30 June 2003 was HK\$10.16 million, representing an increase of approximately 83.05% as compared to that of the corresponding period in 2002.
- During the second quarter of 2003, Yallaferon® had been widely used to prevent the severe acute respiratory syndrome (“SARS”) virus spread through nasal passage. The sales volume of Yallaferon® therefore rose from 152,000 tubes for the whole year of 2002 to 264,000 tubes for only the first half of 2003.
- The Company and its subsidiaries (collectively referred to as the “Group”) have donated its flagship product, Yallaferon® to 小湯山傳染病醫院 in Beijing and the Chinese Center for Disease Control and Prevention to be used by the frontline medical workers for the prevention of SARS.
- For the second quarter ended 30 June 2003, the Group recorded a net profit before minority interests of HK\$677,000, representing a turn-around from the net loss before minority interests of HK\$458,000 in the same period last year.
- The Group’s net current assets improved from HK\$6.70 million in 31 December 2002 to HK\$11.55 million in 30 June 2003.
- The Group obtained the exclusive distribution rights from a biopharmaceutical company in the United States of America (“US”) for OraFlu and OraFlu Plus for the treatment of viral infectious diseases.

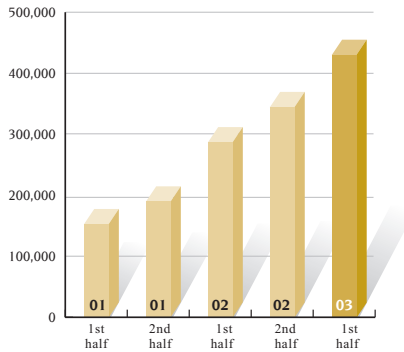
- A license-in drug, Gliconorm®, from Italy has been submitted to the State Food and Drug Administration (the “SFDA”) of the People’s Republic of China (the “PRC”). Gliconorm® combines two leading antidiabetics in a single tablet and is expected to achieve better patient compliance that can lead to better control of patient’s blood sugar level and symptoms.
- Approval was received from the SFDA of the PRC to initiate clinical trial on nephritic syndrome for Livaracine.
- The Group has entered into an exclusive licensing agreement with the National Institutes of Health (“NIH”) of the US for the development and commercialization of a proprietary technology titled “the methods and compositions for the promotion of hair growth utilizing actin-binding peptides”.
- The clinical study on herpes zoster for Yallaferon® has been initiated with five prestigious hospitals in the PRC.

The total turnover of the Group, and the turnover of its flagship products, namely Livaracine and Yallaferon® are set out as follows respectively:

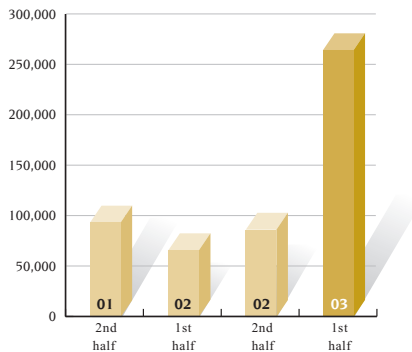
**Turnover of the Group (HK\$'000)**



**Livaracine – Turnover (vial)**



**Yallaferon® – Turnover (tube)**



## BUSINESS REVIEW AND PROSPECTS

### Business Review

During the six months ended 30 June 2003, 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 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 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 NIH of the 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 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:

	<b>Budgeted amount to be used up to 30 June 2003 as extracted from the Prospectus</b>	<b>Actual amount used up to 30 June 2003</b>	<i>Notes</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	
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	
	<hr/>	<hr/>	
	10,439	5,620	
	<hr/> <hr/>	<hr/> <hr/>	

*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

<b>Business objectives from 1 January 2003 to 30 June 2003</b>	<b>Actual progress from 1 January 2003 to 30 June 2003</b>
<p>Purchase new equipment for raw material workshop to increase the production capacity</p>	<p>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.</p>
<p>Establish Wuxi branch office to expand the Group's sales efforts</p>	<p>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.</p>
<p>Commence phase I clinical trial of Anti-Fungus Peptide</p>	<p>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.</p>

<b>Business objectives from 1 January 2003 to 30 June 2003</b>	<b>Actual progress from 1 January 2003 to 30 June 2003</b>
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.
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		For the six months	
		ended 30 June		ended 30 June	
		2003	2002	2003	2002
		(Restated)		(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	(4)	787	(319)	(721)	(1,371)
Finance costs		(134)	(147)	(310)	(296)
Profit (loss) before taxation		653	(466)	(1,031)	(1,667)
Taxation	(5)	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	(6)	–	–	–	–
Earnings (loss) per Share		HK cents	HK cents	HK cents	HK cents
Basic	(7)	0.23	0.56	(0.34)	(0.02)
Diluted	(7)	0.23	0.55	(0.34)	(0.02)

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2003	(Audited) At 31 December 2002 (Restated)
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		15,619	15,483
Intangible assets		10,917	10,950
Deferred tax assets	(10)	12	-
Pledged bank deposits		3,019	3,002
		<b>29,567</b>	<b>29,435</b>
<b>Current assets</b>			
Inventories		1,123	875
Amount due from a related company		101	103
Trade receivables	(8)	1,120	1,458
Other receivables, deposits and prepayments		1,608	1,153
Pledged bank deposits		-	1,346
Cash and bank balances		13,579	14,064
		<b>17,531</b>	<b>18,999</b>
<b>Current liabilities</b>			
Amount due to related companies		384	384
Trade payables	(9)	214	129
Other payables		3,602	4,170
Current portion of borrowings		1,782	7,620
		<b>5,982</b>	<b>12,303</b>
<b>Net current assets</b>		<b>11,549</b>	<b>6,696</b>
<b>Total assets less current liabilities</b>		<b>41,116</b>	<b>36,131</b>
<b>Capital and reserves</b>			
Share capital	(11)	14,461	14,461
Reserves		18,963	19,970
		<b>33,424</b>	<b>34,431</b>
Minority interest		-	-
<b>Non-current liabilities</b>			
Deferred tax liabilities	(10)	917	942
Borrowings		6,775	758
		<b>7,692</b>	<b>1,700</b>
		<b>41,116</b>	<b>36,131</b>

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2003 <i>HK\$'000</i>	Six months ended 30 June 2002 <i>HK\$'000</i>
Net cash (used in) from operating activities	(896)	117
Net cash used in investing activities	(1,108)	(292)
Net cash from financing activities	179	1,800
(Decrease) increase in cash and cash equivalents	(1,825)	1,625
Cash and cash equivalents at beginning of the period	15,411	296
Effect of foreign exchange rate changes	(7)	(12)
Cash and cash equivalents at end of the period	13,579	1,909

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$ '000	Share premium HK\$ '000	Merger difference HK\$ '000	Revaluation reserve HK\$ '000	Exchange reserves HK\$ '000	Accumulated losses HK\$ '000	Total HK\$ '000
At 1 January 2002	–	–	–	–	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	9,200	–	9,200	–	–	–	18,400
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	480	3,360	–	–	–	–	3,840
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	571	3,082	–	–	–	–	3,653
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	116	631	–	–	–	–	747
Issue of Shares to Huby Technology Limited for cash	344	1,856	–	–	–	–	2,200
Surplus on revaluation of property, plant and equipment not recognised in consolidated income statement (restated)	–	–	–	3,921	–	–	3,921
Exchange rate adjustment not recognised in consolidated income statement (restated)	–	–	–	–	49	–	49
Net loss for the period (restated)	–	–	–	–	–	(38)	(38)
At 30 June 2002, as restated	10,711	8,929	9,200	3,921	34	(14,360)	18,435
At 1 January 2003	14,461	24,887	9,200	4,613	1	(17,789)	35,373
Adjustment on adoption of SSAP12 (Revised)	–	–	–	(692)	11	(261)	(942)
At 1 January 2003, as restated	14,461	24,887	9,200	3,921	12	(18,050)	34,431
Exchange rate adjustment not recognised in consolidated income statement	–	–	–	–	(12)	–	(12)
Net loss for the period	–	–	–	–	–	(995)	(995)
At 30 June 2003	14,461	24,887	9,200	3,921	–	(19,045)	33,424



## 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. Profit (loss) from operations**

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the three months</b>		<b>For the six months</b>	
	<b>ended 30 June</b>		<b>ended 30 June</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging (crediting):				
Depreciation of property, plant and equipment	<b>383</b>	355	<b>749</b>	659
Amortisation of intangible assets	<b>143</b>	139	<b>286</b>	278
<b>Total depreciation and amortisation</b>	<b>526</b>	494	<b>1,035</b>	937
Auditors' remuneration	<b>114</b>	4	<b>214</b>	4
Directors' remuneration	<b>518</b>	129	<b>1,035</b>	258
Staff costs	<b>1,265</b>	585	<b>2,365</b>	1,197
Research and development costs	<b>92</b>	115	<b>125</b>	230
Operating lease payments in respect of rented premises	<b>227</b>	196	<b>438</b>	388
Bad debt written off	<b>66</b>	32	<b>66</b>	44
Allowance for bad and doubtful debts (written back)	<b>(91)</b>	(236)	<b>(60)</b>	183
Provision for stock written back	<b>(7)</b>	(9)	<b>(10)</b>	(9)
Interest income	<b>(31)</b>	(1)	<b>(78)</b>	(1)

**5. Taxation**

	<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 June</b>		<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>	
	<b>2003</b> <i>HKS'000</i>	2002 <i>HKS'000</i>	<b>2003</b> <i>HKS'000</i>	2002 <i>HKS'000</i>
Current tax				
Hong Kong	–	–	–	–
PRC	–	–	–	–
	–	–	–	–
Deferred tax				
Credit of current period	<b>24</b>	8	<b>36</b>	8
<b>Taxation attributable to the Group</b>	<b>24</b>	8	<b>36</b>	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).

**6. Dividends**

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

7. **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	<b>HK\$677,000</b>	HK\$1,163,000	<b>HK\$(995,000)</b>	HK\$(38,000)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<b>289,225,000</b>	208,785,440	<b>289,225,000</b>	205,154,558
Effect of dilutive potential ordinary shares: options	<b>820,896</b>	1,500,000	<b>820,896</b>	1,500,000
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<b>290,045,896</b>	210,285,440	<b>290,045,896</b>	206,654,558

**8. 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.

	<b>(Unaudited)</b> <b>30 June 2003</b> <i>HK\$ '000</i>	(Audited) 31 December 2002 <i>HK\$ '000</i>
1 – 90 days	691	888
91 – 180 days	334	465
181 – 365 days	189	210
Over 365 days and under 3 years	452	501
	<b>1,666</b>	2,064
Less: Allowance for bad and doubtful debts	<b>(546)</b>	(606)
	<b>1,120</b>	1,458

**9. Trade payables**

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

	<b>(Unaudited)</b> <b>30 June 2003</b> <i>HK\$ '000</i>	(Audited) 31 December 2002 <i>HK\$ '000</i>
1 – 90 days	139	67
91 – 180 days	13	–
181 – 365 days	1	–
Over 365 days	61	62
	<b>214</b>	129

**10. Deferred tax**

The followings are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior period.

	<b>Revaluation of properties</b>
	<i>HK\$ '000</i>
At 1 January 2002	–
(Credit) to loss for the period	(8)
Charge to equity for the period	989
Exchange differences	–
	<hr/>
At 30 June 2002	981
	<hr/>
At 1 January 2003	942
(Credit) to loss for the period	(36)
Charge to equity for the period	–
Exchange differences	(1)
	<hr/>
At 30 June 2003	905
	<hr/>

At the balance sheet date, the Group has unused tax losses of HK\$19,045,000 (2002: HK\$17,788,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

**11. Share capital**

	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
Authorised:		
At 30 June 2003 and 31 December 2002	500,000,000	25,000

Issued and fully paid or credited as fully paid:

	Number of ordinary shares of HK\$0.05 each		Amount	
	30 June 2003	31 December 2002	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
At beginning of the period	<b>289,225,000</b>	1	<b>14,461</b>	–
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	–	184,000,000	–	9,200
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	–	9,599,999	–	480
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	–	11,415,625	–	571
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	–	2,334,375	–	116
Issue of Shares to Huby Technology Limited for cash	–	6,875,000	–	344
Issue of new Shares to public	–	75,000,000	–	3,750
At end of the period	<b>289,225,000</b>	289,225,000	<b>14,461</b>	14,461

**12. Related party transactions**

During the period, the Group entered into the following transactions with related parties:

Name of related parties	Nature of transaction	(Unaudited)	
		Six months ended 30 June 2003 HK\$ '000	2002 HK\$ '000
University of Science and Technology of China ("USTC")	Interest payable	15	15
Eco-Globe Development Limited	Purchase	12	–
Cremalpina Co. Limited	Sales	3	–

Notes:

- USTC is considered a related party of the Group as it is subject to common control or common significant influence as the minority shareholder of the Group's member, Hefei Siu-Fung USTC Pharmaceutical Company Limited ("Zhaoke").
- Eco-Globe Development Limited is 50% owned by Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun"), 25% owned by Ms. Lee Siu Fong ("Ms. Lee") and 25% owned by Ms. Lue Shuk Ping, Vicky ("Ms. Lue").
- Cremalpina Co. Limited is 37.5% owned by Ms. Leelalertsuphakun, 31.25% owned by Ms. Lee and 31.25% owned by Ms. Lue.
- In the opinion of the directors, the above related party transactions were carried out in the usual course of business and on normal commercial terms.



**13. Commitments**

At 30 June 2003 and 31 December 2002, the Group had the following commitments:

- (i) Capital commitments in respect of acquisition of property, plant and equipment:

	<b>(Unaudited)</b> <b>At 30 June 2003</b> <i>HK\$'000</i>	(Audited) At 31 December 2002 <i>HK\$'000</i>
Contracted amount	–	160
Less: Deposit paid	–	(48)
	–	112

- (ii) Operating lease commitments in respect of land and buildings which fall due as follows:

	<b>(Unaudited)</b> <b>At 30 June 2003</b> <i>HK\$'000</i>	(Audited) At 31 December 2002 <i>HK\$'000</i>
Within one year	<b>341</b>	597
In more than one year but not exceeding five years	<b>60</b>	123
	<b>401</b>	720

- (iii) Lee's Pharmaceutical (HK) Limited entered into an agreement with the Hong Kong University of Science and Technology on 16 May 2001 to carry out a research and development project which aims at finding "inhibitors" by screening of human heparanase inhibitors as anti-cancer drugs from Traditional Chinese Medicine. The total project cost was HK\$2,760,000. The Company is required to contribute HK\$1,380,000. According to the agreement, the project will be completed on 31 March 2004. As at 30 June 2003, the Company had already paid HK\$1,157,509 for the project.

## INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURE ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the following persons had interests or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

### (a) Long positions in Shares

Name	Notes	Number of Shares beneficially held	Nature of interest	Percentage of shareholding
Huby Technology Limited		155,290,625	Corporate	53.7%
Ms. Lee	1	165,625,000	Personal & Corporate	57.3%
Ms. Leelalertsuphakun	2	163,290,625	Corporate	56.5%
High Knowledge Investments Limited	3	16,000,000	Corporate	5.5%
Ms. Lue		16,000,000	Corporate	5.5%

#### Notes:

- 2,334,375 Shares are held by Ms. Lee personally. 163,290,625 Shares of which 155,290,625 Shares are held by Huby Technology Limited ("Huby Technology") and 8,000,000 Shares are held by Dynamic Achieve Investments Limited ("Dynamic Achieve"), and in both case, 50 per cent. of their respective entire issued capitals are legally and beneficially owned by Ms. Lee.
- Among the 163,290,625 Shares, 155,290,625 Shares are held by Huby Technology and 8,000,000 Shares are held by Dynamic Achieve, and in both cases, 50 per cent. of their respective entire issued capitals are legally and beneficially owned by Ms. Leelalertsuphakun.
- These Shares are legally owned by High Knowledge Investments Limited, which are entirely and beneficially owned by Ms. Lue.

**(b) Long positions in underlying Shares of equity derivatives**

<b>Name</b>	<b>Nature of Interest</b>	<b>Number and description of equity derivatives</b>	<b>Number of underlying shares</b>
Ms. Lee	Personal	Pre-IPO Share Option to subscribe for 1,600,000 Shares pursuant to the Pre-IPO Share Option Scheme	1,600,000
Ms. Leelalertsuphakun	Personal	Share Option to subscribe for 289,000 Shares pursuant to the Share Option Scheme	289,000
Ms. Lue	Family	Mr. Li Xiaoyi, husband of Ms. Lue has been granted share option to subscribe for 2,890,000 Shares under Share Option Scheme, therefore Ms. Lue is deemed to be interested in such number of Shares in the Company	2,890,000

**(c) Short positions in Shares**

No short positions of other persons and substantial shareholders in the Shares of the Company were recorded in the register.

**(d) Short positions in underlying Shares of equity derivatives**

No short positions of other persons and substantial shareholders in the underlying Shares of equity derivatives of the Company were recorded in the register.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

At 30 June 2003, the interests and short positions of the Directors and chief executives in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

### (a) Long positions in Shares

Name of director	Notes	Number of Shares held and nature of interest			Percentage of issued share capital
		Personal interest	Corporate interest	Total	
Ms. Lee	(i)	2,334,375	163,290,625	165,625,000	57.27%
Ms. Leelalertsuphakun	(ii)	–	163,290,625	163,290,625	56.46%

#### Notes:

- (i) 2,334,375 Shares are held personally by Ms. Lee and 163,290,625 Shares are held through Huby Technology and Dynamic Achieve. Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee and Ms. Leelalertsuphakun.
- (ii) 163,290,625 Shares are held through Huby Technology and Dynamic Achieve. Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Leelalertsuphakun and Ms. Lee.

**(b) Long positions in underlying Shares of equity derivatives**

Pursuant to a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 26 June 2002, certain Directors were granted share options to subscribe for Shares of the Company, details of which as at 30 June 2003 were as follows:

Name of director	Date of grant	Exercise price	Exercisable period	Number of share options outstanding at 30 June 2003
<i>Executive directors</i>				
Ms. Lee	26/06/2002	HK\$0.28	50 per cent. thereof be exercisable not less than two years but not more than 10 years from 26/06/2002. In respect of the unexercised balance thereof be exercisable not less than three years but not more than 10 years from 26/06/2002.	1,600,000
Lau Tai Wai	26/06/2002	HK\$0.28	50 per cent. thereof be exercisable not less than two years but not more than 10 years from 26/06/2002. In respect of the unexercised balance thereof be exercisable not less than three years but not more than 10 years from 26/06/2002.	3,000,000

Pursuant to a share option scheme (the "Share Option Scheme") adopted by the Company on 26 June 2002, certain executive and independent non-executive Directors were granted share options on 13 January 2003 to subscribe for Shares of the Company, details of which as at 30 June 2003 were as follows:

Name of director	Date of grant	Exercise price	Exercisable period	Number of share options outstanding at 30 June 2003
<i>Executive directors</i>				
Ms. Leelalertsuphakun	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	289,000
<i>Independent Non-executive Directors</i>				
Chan Yau Ching, Bob	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	100,000
Leung Yun Fai	13/01/2003	HK\$0.405	13/07/2003 to 12/01/2013	100,000

No option granted under the Pre-IPO Share Option Scheme or the Share Option Scheme was cancelled or lapsed since date of grant.

28

**(c) Short positions in Shares**

No short positions of directors and chief executives in the Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

**(d) Short positions in underlying Shares of equity derivatives**

No short positions of directors and chief executives in the underlying Shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

## SHARE OPTION

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company, among others, conditionally adopted the Pre-IPO Share Option Scheme and Share Option Scheme, the principal terms of which are set out in the Prospectus.

On 26 June 2002, options to subscribe for an aggregate of 5,000,000 Shares at a subscription price of HK\$0.28 per Share were granted to certain employees and certain executive Directors (as disclosed above) pursuant to the Pre-IPO Share Option Scheme, particulars of which are set out in the Prospectus. Such options will, in respect of not more than 50% thereof, be exercisable not less than two years but not more than ten years from the date of grant, i.e. during the period from 26 June 2004 to 25 June 2012 (both days inclusive), and in respect of the unexercised balance thereof, be exercisable not less than three years but not more than ten years from the date of grant, i.e. during the period from 26 June 2005 to 25 June 2012 (both days inclusive).

Pursuant to the Share Option Scheme, certain executive, independent non-executive Directors and certain employees were granted options on 13 January 2003 to subscribe for 3,929,000 Shares at a subscription price of HK\$0.405 per Share. The share options will be exercisable not less than six months but not more than ten years from the date of grant, i.e. during the period from 13 July 2003 to 12 January 2013 (both days inclusive).

The fair value of the option granted in the period measured as at the date of grant on 13 January 2003 was HK\$0.23. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 36.34 per cent.;
2. expected annual dividend yield of 0 per cent.;
3. the estimated expected life of the options granted during the year is 10 years; and
4. the quoted interest rate for the Exchange Fund Notes with maturity in 2013 was 4.687 per cent. which was adopted to calculate the fair value of options granted on 13 January 2003.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Up to 30 June 2003, no share option granted has been exercised.

## 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.

30

## 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.

## AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 26 June 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The Committee comprises an executive Director, namely, Ms. Lee and two independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob and Mr. Leung Yun Fai as its first members. 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 2003.

**Lee Siu Fong**  
*Chairperson*

Hong Kong, 14 August 2003