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)

IR 05

Interim Report 2005

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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 enrollment 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.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2005, the Group had cash and bank balances and pledged bank deposits of approximately HK$ 6.19 million (31 December 2004: HK$12.54 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about1.59 times (31 December 2004: 1.99 times). Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in future.

As at 30 June 2005, the Group had bank and other borrowings of approximately HK$4.7 million and shareholders' funds of approximately HK$35.2 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to shareholders' fund, was zero (31 December 2004: zero).

Charges on Group Assets

As at 30 June 2005, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$9.0 million (31 December 2004: HK$9.2 million) was pledged to bank and other institutions 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 2005 (31 December 2004: HK$2.01 million).

Foreign Exchange Exposure

Currently, the Group earned revenue and incurred cost mainly in Renminbi, Hong Kong dollars and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group did not use any type of derivatives to hedge against any foreign currency fluctuations.

Employee Information

As at 30 June 2005, the Group employed a total of 178 full time employees (31 December 2004: 165) with a total staff cost for the six months ended 30 June 2005 of approximately HK$4.1 million (including directors' remuneration).

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

Contingent Liabilities

As at 30 June 2005, the Group had no contingent liabilities.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 30 June		For the six months ended 30 June	
	Notes	**2005**	2004	**2005**	2004
		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	(4)	**213**	(401)	**375**	(1,726)
Finance costs		**(105)**	(164)	**(239)**	(309)
Profit (loss) before taxation		**108**	(565)	**136**	(2,035)
Taxation	(5)	**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	(6)	**–**	–	**–**	–
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings (loss) per Share					
Basic	(7)	**0.04**	(0.19)	**0.05**	(0.70)
Diluted	(7)	**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	(8)	**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	(9)	**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	(10)	**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	(12)	**17,311**	17,311
Reserves		**17,947**	18,416
		35,258	35,727
Minority interest		**–**	–
Non-current liabilities			
Deferred tax liabilities	(11)	**624**	648
		35,882	36,375

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Net cash used in operating activities	**(1,160)**	(3,901)
Net cash used in investing activities	**(4,860)**	(564)
Net cash used in financing activities	**(160)**	(1,086)
Decrease in cash and cash equivalents	**(6,180)**	(5,551)
Cash and cash equivalents at beginning of the period	**12,539**	12,532
Effect of foreign exchange rate changes	**(171)**	(253)
Cash and cash equivalents at end of the period	**6,188**	6,728
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	**4,176**	723
Pledged bank deposits	**2,012**	6,005
	6,188	6,728

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger difference	Revaluation reserve	Employee share-based compensation reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

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 ("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. Profit (loss) from operations

	(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)
Profit (loss) from operations has been arrived at after charging (crediting):				
Depreciation of property, plant and equipment	**349**	356	**741**	731
Amortisation of lease premium for land	**7**	7	**14**	14
Amortisation of intangible assets	**138**	144	**276**	288
Total depreciation and amortisation	**494**	507	**1,031**	1,033
Auditors' remuneration	**116**	108	**229**	220
Directors' remuneration	**765**	742	**1,517**	1,433
Staff costs	**1,357**	1,460	**2,616**	2,833
Research and development costs (excluding staff costs)	**74**	46	**130**	74
Operating lease payments in respect of rented premises	**360**	262	**692**	512
Bad debt written off	**–**	2	**–**	8
Allowance for bad and doubtful debts	**30**	48	**47**	44
Interest income	**(19)**	(4)	**(43)**	(23)

5. **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).

6. **Dividends**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Ni1).

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	
	2005	2004 (Restated)	**2005**	2004 (Restated)
Earnings (loss):				
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	**HK$123,000**	HK$(553,000)	**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.

8. **Movements in property, plant and equipment**

During the period, the Group acquired property, plant and equipment at a cost of HK$572,000.

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 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000*
1-90 days	**4,021**	3,065
91-180 days	**238**	460
181-365 days	**166**	112
Over 365 days and under 3 years	**78**	67
	4,503	3,704
Less: Allowance for bad and doubtful debts	**(162)**	(123)
	4,341	3,581

10. **Trade payables**

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

	(Unaudited) 30 June 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000*
1-90 days	**1,943**	9
91-180 days	**4**	84
181-365 days	**2**	1
Over 365 days	**75**	–
	2,024	94

11. 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.

	Revaluation of properties HK$'000
At 1 January 2004 (restated)	675
(Credit) to loss for the period	(14)
Exchange differences	(1)
At 30 June 2004	660
At 1 January 2005(restated)	648
(Credit) to profit for the period	(26)
Exchange differences	2
At 30 June 2005	624

At the balance sheet date, the Group has unused tax losses of HK$24,887,000 (2004: HK$24,887,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

12. Share capital

	Number of ordinary shares of HK$0.05 each	Amount HK$'000
Authorised:		
At 30 June 2005 and 31 December 2004	500,000,000	25,000

Issued and fully paid or credited as fully paid:

	Number of ordinary shares of HK$0.05 each		Amount	
	30 June 2005	31 December 2004	**30 June 2005**	31 December 2004
			HK$'000	*HK$'000*
At beginning and end of the period	**346,225,000**	346,225,000	**17,311**	17,311

13. Further acquisition of interest in a subsidiary

On 10 May 2005, the Group acquired 30% of the issued share capital of Hefei Siu-Fung USTC Pharmaceutical Company Limited ("Zhaoke") for cash consideration of HK$3,900,000. Zhaoke become a wholly owned subsidiary of the Group after the acquisition. This transaction has been accounted for using the purchase method of accounting.

The Goodwill arising on the acquisition of Zhaoke amounted to HK$3,900,000.

14. Commitments

As at 30 June 2005 and 31 December 2004, the Group had no capital commitment.

SHARE OPTION SCHEME

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

Movements of share option during six months ended 30 June 2005 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2005**	**Granted**	**Exercised/ cancelled**	**Lapsed**	**Outstanding at 30.06.2005**
Director						
Lee Siu Fong	26.06.2002	1,600,000	–	–	–	1,600,000
Leelalertsuphakun Wanee	13.01.2003	289,000	–	–	–	289,000
Li Xiaoyi	13.01.2003	2,890,000	–	–	–	2,890,000
Chan Yau Ching, Bob	13.01.2003	100,000	–	–	–	100,000
	25.06.2004	300,000	–	–	–	300,000
Sub-total of Director		5,179,000	–	–	–	5,179,000
Employees	26.06.2002	400,000	–	–	(350,000)	50,000
	13.01.2003	550,000	–	–	(150,000)	400,000
	25.06.2004	6,800,000	–	–	(550,000)	6,250,000
Sub-total of employees		7,750,000	–	–	(1,050,000)	6,700,000
Grand total		12,929,000	–	–	(1,050,000)	11,879,000

Notes:

1. **Particulars of share options:**

Date of Grant	**Exercise period**		**Exercise price per share**
			HK$
26.06.2002	(i)	50% exercisable not less than 2 years from date of grant but not more than 10 years, i.e. 26.06.2004-25.06.2012	0.280
	(ii)	unexercised balance thereof be exercisable not less than 3 years from date of grant but not more than 10 years, i.e. 26.06.2005-25.06.2012	
13.01.2003	13.07.2003-12.01.2013		0.405
25.06.2004	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014	0.218
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	

Saved as disclosed above, as at 30 June 2005, none of the Directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2005, the following Directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within he meaning of Part XV of the Securities and Future Ordinance (the "SFO') were as follows:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of shares	Total	% of issued share capital
Lee Siu Fong	Beneficial owner		2,334,375		
	Interest of corporation	(i)	163,290,625	165,625,000	47.84
Leelalertsuphakun Wanee	Beneficial owner		1,000,000		
	Interest of corporation	(i)	163,290,625	164,290,625	47.45
Li Xiaoyi	Interest of spouse	(ii)	16,000,000	16,000,000	4.62

Notes:

(i) 163,290,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

(b) *Share options*

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	1,600,000	1,600,000
Leelalertsuphakun Wanee	Beneficial owner	289,000	289,000
Li Xiaoyi	Beneficial owner	2,890,000	2,890,000
Chan Yau Ching, Bob	Beneficial owner	400,000	400,000
		5,179,000	5,179,000

(c) *Aggregate long positions in the Shares and the underlying Shares*

Name	Number of Shares	Number of underlying Shares	Aggregate in number	% of issued share capital
Lee Siu Fong	165,625,000	1,600,000	167,225,000	48.30
Leelalertsuphakun Wanee	164,290,625	289,000	164,579,625	47.54
Li Xiaoyi	16,000,000	2,890,000	18,890,000	5.46
Chan Yau Ching, Bob	–	400,000	400,000	0.12

2. Short positions

No short positions of Directors and chief executive in the Share or underlying 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 5.46 of the GEM Listng Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during six months ended 30 June 2005 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2005, the following persons/companies, other than a Director or chief executive of the Company, who 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 SFO) which are required to be 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:

1. Long positions

(a) Ordinary shares of HK$0.05 each of the Company

Name	**Capacity and nature**	*Notes*	**Number of Shares**	**% of issued share capital**
Huby Technology Limited	Beneficial owner		155,290,625	44.85
Defiante Farmaceutica, Lda	Beneficial owner		57,000,000	16.46
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	4.62
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	4.62

(b) Underlying shares

Name	**Capacity and nature**	**Notes**	**Kind of underlying Share**	**Number of underlying Shares**
Defiante Farmaceutica, Lda	Beneficial owner		Unlisted warrants	69,245,000
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	2,890,000

Notes:

(i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.

(ii) Dr. 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

(c) *Aggregate long positions in the Shares and the underlying Shares*

Name	Number of Shares	Number of underlying Shares	Aggregate in number	% of issued share capital
Huby Technology Limited	155,290,625	–	155,290,625	44.85
Defiante Farmaceutica, Lda	57,000,000	69,245,000	126,245,000	36.46
High Knowledge Investments Limited	16,000,000	–	16,000,000	4.62
Lue Shuk Ping, Vicky	16,000,000	2,890,000	18,890,000	5.46

2. Short positions

No short positions of other persons and substantial shareholders in the Share or underlying Shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 30 June 2005, so far as is known to the Directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealings throughout the six months period ended 30 June 2005.

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.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group 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 report, 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