



Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*
(incorporated in the Cayman Islands with limited liability)

A close-up photograph of a person wearing a white surgical cap and a white face mask, with only their eyes visible. The background is a warm, orange-toned geometric pattern.

human

Interim Report 2004

A close-up photograph of a woman with curly hair, covering her mouth with her hand. The background is a warm, orange-toned geometric pattern.

technology

* 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.

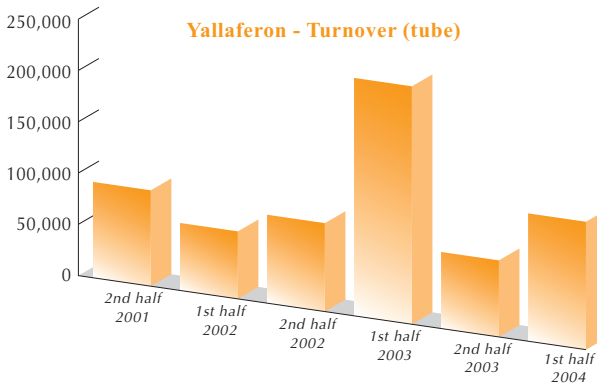
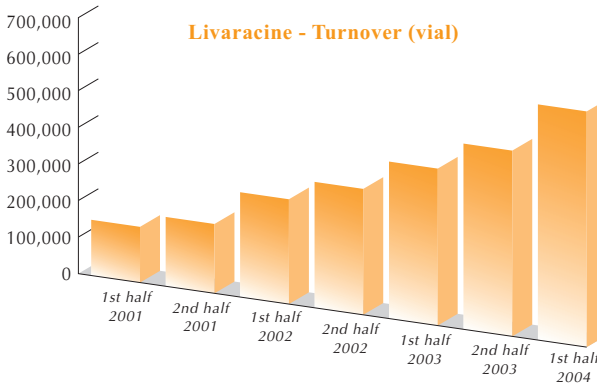
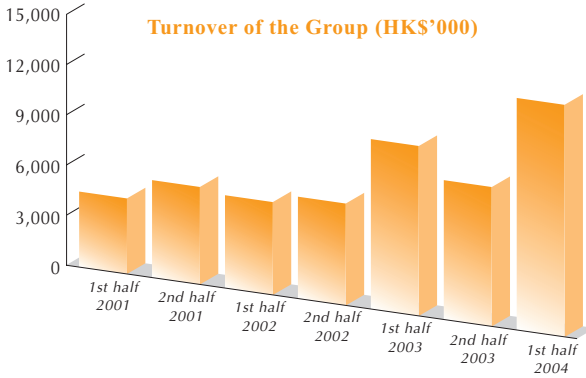
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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective 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.

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



BUSINESS REVIEW AND PROSPECTS

Business Review

During the six months ended 30 June 2004, Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") continue to achieve significant progress in all areas forward the goal of being a strong and integrated biopharmaceutical company.

The revenue has grown 10.46% over the same period of last year and 36.55% over the previous six month period. Both self-developed products, <Yallaferon> and <Livaracine> have shown impressive growth momentum and contributed substantially to the growth of overall revenue. In addition, the license-in product, L-Carnitine performed satisfactorily during the period and also helped to fuel the growth of overall revenue.

During the period, the Group has intensified its marketing activity by establishing a department of medical promotion. This department is devoted for knowledge-based education and promotion, delivering product information directly to health care professionals like doctors. During the period under review, the Group has held product seminars in over 100 hospitals and participated in several provincial and/or national professional meetings.

The Group has also made progress in its research and development programs for the first six months. Requested supplemental data for both Anti-fungus Peptide and Declotana has been prepared and submitted to the State Food and Drug Administration (the "SFDA") for further review. Clinical study of <Yallaferon> for herpes zoster has been successfully completed with results that clearly demonstrate Yallaferon's efficacy and safety in treating herpes zoster. Application is being made to the SFDA to expand the indications of <Yallaferon> which will provide additional growth opportunities for <Yallaferon>.

Prospects

Subsequent to the period under review, the Group entered into a subscription agreement with Defiante Farmaceutica, Lda (“Defiante”) on 30 July 2004, a member of Sigma-Tau Group. Sigma-Tau Group is a leading research-based Italian pharmaceutical company with annual revenue of equivalent to approximately HK\$6 billion and approximately 2,400 employees worldwide. Therapeutic areas in which the Sigma-Tau Group’s research and development are focused include oncology, neurology, cardiovascular, gastroenterology, metabolism and immunology, with more than 40 projects, 25 indications studied with 17 molecules. Sigma-Tau Group has operating subsidiaries throughout Europe and the United States and maintains a presence in all of the world’s major pharmaceutical markets. All these activities are in fact complementary to the existing business activities of the Group and will result in bringing about business synergies for both parties who are at present predominantly operating in different geographical areas.

The board of directors of the Company (the “Board”) considers that the subscription and the issue of warrants to Defiante provides an opportunity to raise additional funds for the Group’s working capital and future investment purposes while strengthening its financial position, and broadening the capital base of the Company. More importantly, such strategic partnership could transform the Group into a stronger player in China’s pharmaceutical market and propel the Group onto a new level. The directors of the Company (the “Directors”) consider that the Sigma-Tau Group will, through this transaction, also bring to the Group the benefit of its almost 50 years of experience in pharmaceutical business worldwide, permitting the Group’s possible access to its strong research and development expertise and new products and technologies. This may significantly improve the product pipeline of the Group to better leverage on its established sales and distribution network in China. The Directors also consider and confirm that upon completion of these transactions and with due regard to the business nature of the Sigma-Tau Group and although as a result there will be changes in the shareholdings structure of the Company, the Company will still be continuing its existing business activities. The Directors have no intention to bring about any material change to any areas of such existing business activities.

The proceeds from the subscription and for the exercise in full of the warrants shall be no less than HK\$24 million and will be used for working capital to further expand the Group’s sales and distribution network in China, acquiring new products and technologies and to upgrade the existing manufacturing facilities, and for future investment purposes.

FINANCIAL POSITION

Financial Review

The Group's unaudited consolidated turnover for the three and six months ended 30 June 2004 amounted to HK\$7.67 million and HK\$13.88 million respectively, representing an increase of 10.52% and 36.61% over that of last year despite the remarkable results recorded during SARS period last year. The increase was mainly attributable to commencing the sales of license-in product <L-Carnitine> and an increase of 60.21% of <Livaracine>.

For the second quarter of 2004, turnover of <L-Carnitine> and <Livaracine> were approximately HK\$1.88 million and HK\$4.21 million accounting for 24.51% and 54.89% respectively of the Group's total turnover.

Regardless of the effect of SARS which increase fourfold the quarterly sales volume last year, turnover of <Yallaferon> was HK\$1.48 million in the second quarter of 2004 and compared to HK\$0.93 million recorded in the first quarter, represented an increase of 30.08% on a quarter to quarter basis.

The gross profit margin was 68.88% in the second quarter of 2004, compared to 78.76% for the same period in 2003. The drop was because of sales of license-in product having lower gross margin of 37.54% and production cost substantially reduced during SARS period last year. As the sales volume of <Yallaferon> jumped by fourfold in the second quarter of 2003, its production cost reduced from economies of scales by maximizing production capacity.

Selling and distribution expenses for the second quarter of 2004 increased as compared with that of corresponding period of 2003 due to the set-up of sales and marketing department in Hong Kong in November 2003 for the Group's license-in product to be launched in the Hong Kong market.

Loss from operations in the second quarter of 2004 was HK\$0.53 million, whereas the Group recorded a profit of approximately HK\$0.68 million for the same period of last year due to the remarkable results during SARS period. The Group's operating loss has been narrowed down as evidenced by a decrease of 63.26% on a quarter to quarter basis.

Liquidity, financial resources and treasury policies

The Group financed its operations with banking facilities and balance of proceeds from the Company's initial public offer.

As at 30 June 2004, the Group had cash and bank balances and the pledged bank deposits of approximately HK\$6.73 million (31 December 2003: HK\$12.53 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 1.13 times (31 December 2003: 1.71 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 2004, the Group has long term debts of approximately HK\$0.99 million and shareholders' funds of approximately HK\$27.00 million. Its gearing ratio (long term debts to shareholders' funds plus long term debts) was 3.54% as at 30 June 2004 (31 December 2003: 14.31%).

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 2004, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK\$10.97 million (31 December 2003: HK\$11.13 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\$6.00 million (31 December 2003: HK\$8.33 million) were pledged as securities for banking facilities as at 30 June 2004.

Employee Information

As at 30 June 2004, the Group employs a total of 145 full time employees (31 December 2003: 149) with a total staff cost for the six months ended 30 June 2004 of approximately HK\$4.27million.

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.

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, US dollars and European 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.

Contingent Liabilities

As at 30 June 2004, the Company had issued corporate guarantee of HK\$6.83 million (31 December 2003: HK\$5.00 million) and fixed deposits of HK\$6.00 million (31 December 2003: HK\$8.33 million) to banks in respect of banking facilities granted to its subsidiary of which approximately HK\$4.73 million had been utilized.

USE OF PROCEEDS

Up to 30 June 2004, the net proceeds after deducting the listing expenses had been utilized in line with the terms stipulated in the prospectus issued by the Company dated 3 July 2002 (the "Prospectus") and applied as follows:

	Planned use of proceeds according to the Prospectus HK\$ '000	Actual amount utilized from 15 July 2002 (the date of listing) to 30 June 2004 HK\$ '000	<i>Notes</i>
Production	5,634	1,438	(a)
Sales and marketing	4,458	3,024	(b)
Research and development	2,874	1,887	(c)
Repayment of third party loans	2,984	1,592	(d)
Additional working capital	1,008	5,008	(e)
	16,958	12,949	

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 2005. Please also refer to "Comparison of Business Objectives and Actual Progress" section for further details.
- (b) The original planned fund for advertising and marketing of new products has not been used as the progress of new products development has been delayed due to various reasons. For details, please refer to "Comparison of Business Objectives and Actual Progress" section.
- (c) The funding for research and development has not been used up as the development progress of various projects has been delayed due to reasons stated in "Comparison of Business Objectives and Actual Progress".
- (d) 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 subsidy to high technology enterprises and the Company continues to receive such support.
- (e) Proceed used for working capital has been raised due to consistent operating loss of the Company.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGRESS

The following is a comparison of the actual business progress to the business objectives as set out in the Prospectus:

Business Objectives up to 30 June 2004 as stated in Prospectus	Actual Progress up to 30 June 2004
<p><i>Production:</i></p> <ul style="list-style-type: none"> • Install and commission new purification system for purification workshop • Purchase new equipment for raw material workshop to increase the production capacity • Install and commission imported lyophilized machine to increase the production capacity • Install and commission new imported filling machine for gel workshop 	<ul style="list-style-type: none"> • Due to the delay of product approval for Declotana, the installation of this system has been postponed. Timing for installing this system will depend on the progress of drug approval process. • As a result of a more cost-effective manufacturing process, there is no longer a need for new equipment. • Domestic lyophilized machine instead of imported one had been installed and commissioned due to cost effectiveness. Maximum production capacity has been increase by 100% • Since there is still enough capacity available, the installation will be postponed until the needs arise.

Business Objectives up to 30 June 2004 as stated in Prospectus	Actual Progress up to 30 June 2004
<p><i>Sales and marketing:</i></p> <ul style="list-style-type: none"> • Establish Chengdu and Wuxi branch office to expand the Group's sales efforts • Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts • Launch new products into the market: <ul style="list-style-type: none"> (i) Hemocoagulase (ii) Protein-free calf blood extract eye gelatin (iii) Livaracine for new indication (iv) Anti-fungus peptide (v) Declotana 	<ul style="list-style-type: none"> • 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 offices in Chengdu and 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. • Sales and marketing team of Guangzhou sales office and Shanghai branch office have been restructured in year 2003. Additional staffs have been recruited to strengthen the whole sales team in the PRC . • Since the new products were not ready for market due to delay in research and development progress as discussed below, the respective launching exercise was postponed accordingly.

Business Objectives up to 30 June 2004 as stated in Prospectus	Actual Progress up to 30 June 2004
<p>Research and development:</p> <ul style="list-style-type: none"> • Declotana: <ul style="list-style-type: none"> (i) submit application for clinical trials (ii) enter phase II clinical trials • Topical Gel Livaracine: <ul style="list-style-type: none"> (i) submit application for clinical trials (ii) commence phase II clinical trials • Hemocoagulase: <ul style="list-style-type: none"> submit application for clinical trials • Protein-free Calf Blood Extract Eye Gelatin: <ul style="list-style-type: none"> Commence phase II clinical trials • Livaracine for new indication: <ul style="list-style-type: none"> Commence phase II clinical trials • Anti-fungus Peptide: <ul style="list-style-type: none"> (i) commence phase I clinical trials (ii) commence phase II clinical trials • Heparanase Inhibitor: <ul style="list-style-type: none"> Commence phase II clinical trials • Oral Livaracine: <ul style="list-style-type: none"> Commence phase II clinical trials 	<ul style="list-style-type: none"> • The requested supplemental data was submitted to SFDA in June 2004. The delay of progression is due to the complexity of new drug development. • We are reviewing the economical prospect of this product now. Thus, no progress has been made so far. • Application has been submitted but has yet to receive feedback from SFDA. • The clinical study is now at preparation stage. Site selection is under-way and study should commence in next quarter. • This study has been postponed as a result of prioritizing. • The requested supplemental data has been submitted to SFDA and approval of clinical study is expected in third quarter. • The project has been postponed as a result of prioritizing. • This project has been postponed as a result of prioritizing.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	(2)	7,667	6,941	13,878	10,163
Cost of sales		(2,386)	(1,474)	(4,566)	(2,483)
Gross Profit		5,281	5,467	9,312	7,680
Other revenue		437	596	466	561
Selling and distribution expenses		(3,362)	(2,522)	(6,080)	(3,450)
Administrative expenses		(2,736)	(2,754)	(5,385)	(5,512)
Profit (loss) from operations	(4)	(380)	787	(1,687)	(721)
Finance costs		(164)	(134)	(309)	(310)
Profit (loss) before taxation		(544)	653	(1,996)	(1,031)
Taxation	(5)	12	24	16	36
Profit (loss) before minority interest		(532)	677	(1,980)	(995)
Minority interest		–	–	–	–
Net profit (loss) for the period		(532)	677	(1,980)	(995)
Dividends	(6)	–	–	–	–
Earnings (loss) per Share		HK cents	HK cents	HK cents	HK cents
Basic	(7)	(0.18)	0.23	(0.68)	(0.34)
Diluted	(7)	(0.18)	0.23	(0.68)	(0.34)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2004 HK\$'000	(Audited) At 31 December 2003 HK\$'000
Non-current assets			
Property, plant and equipment		14,597	15,124
Intangible assets		11,422	11,177
Deferred tax assets	(10)	-	8
		26,019	26,309
Current assets			
Inventories		4,327	2,218
Amount due from a related company		104	103
Trade receivables	(8)	2,629	1,103
Other receivables, deposits and prepayments		3,336	2,324
Pledged bank deposits		6,005	8,331
Cash and bank balances		723	4,201
		17,124	18,280
Current liabilities			
Amount due to related companies		403	384
Trade payables	(9)	238	198
Trust receipts		2,496	809
Other payables		4,869	4,911
Current portion of borrowings		7,153	4,394
		15,159	10,696
Net current assets		1,965	7,584
Total assets less current liabilities		27,984	33,893
Capital and reserves			
Share capital	(11)	14,461	14,461
Reserves		12,534	14,581
		26,995	29,042
Minority interest		-	-
Non-current liabilities			
Deferred tax liabilities	(10)	876	893
Borrowings		113	3,958
		989	4,851
		27,984	33,893

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash used in from operating activities	(3,901)	(896)
Net cash used in investing activities	(564)	(1,108)
Net cash (used in) generated from financing activities	(1,086)	179
Decrease in cash and cash equivalents	(5,551)	(1,825)
Cash and cash equivalents at beginning of the period	12,532	15,411
Effect of foreign exchange rate changes	(253)	(7)
Cash and cash equivalents at end of the period	6,728	13,579
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	723	13,579
Pledged bank deposits	6,005	–
	6,728	13,579

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$ '000</i>	Share premium <i>HK\$ '000</i>	Merger difference <i>HK\$ '000</i>	Revaluation reserve <i>HK\$ '000</i>	Exchange reserves <i>HK\$ '000</i>	Accumulated losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
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
At 1 January 2004	14,461	24,887	9,200	3,921	(14)	(23,413)	29,042
Exchange rate adjustment not recognised in consolidated income statement	-	-	-	-	(67)	-	(67)
Net loss for the period	-	-	-	-	-	(1,980)	(1,980)
At 30 June 2004	14,461	24,887	9,200	3,921	(81)	(25,393)	26,995

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 the disclosure requirements 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 method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2003.

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

Business segments

The following table presents turnover, results and certain asset, liability and expenditure information for the six months ended 30 June 2004 of the Group's business segments.

	Proprietary products		License-in products		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment turnover	10,228	10,163	3,650	–	13,878	10,163
Segment results	1,857	2,744	(1,653)	–	204	2,744
Interest income					23	77
Unallocated expenses					(1,914)	(3,542)
Loss from operations					(1,687)	(721)
Finance costs					(309)	(310)
Loss before taxation					(1,996)	(1,031)
Taxation					16	36
Loss before minority interests					(1,980)	(995)
Segment assets	24,191	24,648	13,937	–	38,128	24,648
Unallocated assets					5,015	22,450
Total assets					43,143	47,098
Segment liabilities	11,938	12,316	3,996	–	15,934	12,316
Unallocated liabilities					214	1,358
Total liabilities					16,148	13,674
Other segment information:						
Capital additions	82	831	52	–	134	831
Depreciation and amortisation	972	1,035	47	–	1,019	1,035
Allowance for bad and doubtful debts	(44)	(60)	–	–	(44)	(60)

Geographical segments

During the period ended 30 June 2004 and 2003, 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):				
Depreciation of property, plant and equipment	356	383	731	749
Amortisation of intangible assets	144	143	288	286
Total depreciation and amortisation	500	526	1,019	1,035
Auditors' remuneration	108	114	220	214
Directors' remuneration	742	518	1,433	1,035
Staff costs	1,460	1,265	2,833	2,365
Research and development costs	46	92	74	125
Operating lease payments in respect of rented premises	262	227	512	438
Bad debt written off	2	66	8	66
Allowance for bad and doubtful debts (written back)	48	(91)	44	(60)
Provision for stock written back	–	(7)	–	(10)
Interest income	(4)	(31)	(23)	(78)

5. Taxation

	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong	–	–	–	–
PRC	–	–	–	–
	–	–	–	–
Deferred tax				
Credit of current period	12	24	16	36
Taxation attributable to the Group	12	24	16	36

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 2004 (2003: Nil).

6. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: 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	
	2004	2003	2004	2003
Earnings (loss):				
Net profit (loss) for the period for the purpose of basic and diluted earnings (loss) per share	HK\$(532,000)	HK\$677,000	HK\$(1,980,000)	HK\$(995,000)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	289,225,000	289,225,000	289,225,000	289,225,000
Effect of dilutive potential ordinary shares: options	370,435	820,896	370,435	820,896
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	289,595,435	290,045,896	289,595,435	290,045,896

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.

	(Unaudited) 30 June 2004 HK\$ '000	(Audited) 31 December 2003 HK\$ '000
1 – 90 days	2,295	785
91 – 180 days	228	146
181 – 365 days	214	343
Over 365 days and under 3 years	143	34
	2,880	1,308
Less: Allowance for bad and doubtful debts	(251)	(205)
	2,629	1,103

9. Trade payables

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

	(Unaudited) 30 June 2004 <i>HK\$'000</i>	(Audited) 31 December 2003 <i>HK\$'000</i>
1 – 90 days	208	149
91 – 180 days	3	1
181 – 365 days	–	21
Over 365 days	27	27
	238	198

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.

	Revaluation of properties <i>HK\$'000</i>
At 1 January 2003	942
(Credit) to loss for the period	(36)
Charge to equity for the period	–
Exchange differences	(1)
At 30 June 2003	905
At 1 January 2004	893
(Credit) to loss for the period	(16)
Charge to equity for the period	–
Exchange differences	(1)
At 30 June 2004	876

At the balance sheet date, the Group has unused tax losses of HK\$24,887,000 (2003: HK\$19,045,000) 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 2004 and 31 December 2003	500,000,000	25,000
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Issued and fully paid or credited as fully paid:

**Number of ordinary shares
of HK\$0.05 each**

Amount

	Number of ordinary shares of HK\$0.05 each		Amount	
	30 June 2004	31 December 2003	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
At beginning and end of the period	289,225,000	289,225,000	14,461	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	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
University of Science and Technology of China ("USTC")	Interest payable	15	15
Eco-Globe Development Limited	Sales	2	–
Eco-Globe Development Limited	Purchase	–	12
Cremalpina Co. Limited	Sales	–	3

Notes:

- a. 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").
- b. 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").
- c. Cremalpina Co. Limited is 37.5% owned by Ms. Leelalertsuphakun, 31.25% owned by Ms. Lee and 31.25% owned by Ms. Lue.
- d. 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 2004 and 31 December 2003, the Group had operating lease commitments in respect of land and buildings which fall due as follows:

	(Unaudited) At 30 June 2004 HK\$'000	(Audited) At 31 December 2003 HK\$'000
Within one year	707	759
In more than one year but not exceeding five years	501	834
	1,208	1,593

SHARE OPTION

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.

Details of the Company's Pre-IPO Share Option Scheme are summarized as follow:

Date of grant	Outstanding at 01.01.2004	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30.06.2004	Exercise period	Exercise price per share
<i>Category I: Directors</i>								
26.06.2002	1,600,000	-	-	-	-	1,600,000	26.06.2004 – 25.06.2012	HK\$0.280
<i>Category II: Employees</i>								
26.06.2002	400,000	-	-	-	-	400,000	26.06.2004 – 25.06.2012	HK\$0.280
	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>		

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26.06.2004 to 25.06.2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26.06.2005 to 25.06.2012 (both days inclusive).

Details of the Company's Share Option Scheme summarized as follow:

Date of grant	Outstanding at 01.01.2004	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30.06.2004	Exercise period	Exercise price per share
<i>Category I: Directors</i>								
13.01.2003	3,379,000	-	-	-	-	3,379,000	13.07.2003 – 12.01.2013	HK\$0.405
25.06.2004*	-	300,000	-	-	-	300,000	25.12.2004 – 24.06.2014	HK\$0.218
<i>Category II: Employees</i>								
13.01.2003	550,000	-	-	-	-	550,000	13.07.2003 – 12.01.2013	HK\$0.405
25.06.2004*	-	6,800,000	-	-	-	6,800,000	25.12.2004 – 24.06.2014	HK\$0.218
	3,929,000	7,100,000	-	-	-	11,029,000		

* The options are vested in 2 tranches as to (i) 50% exercisable not less than six months from the date of grant but not more than ten years, i.e. during the period from 25.12.2004 to 24.06.2014 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than fifteen months from the date of grant but not more than ten years, i.e. during the period from 25.09.2005 to 24.06.2014 (both days inclusive).

Save as disclosed above, no option was granted, exercised or cancelled during the period. The share options are not recognized in the financial statements until they are exercised.

The fair value of the total option granted in the period measured as at the date of grant on 25 June 2004 was HK\$710,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 30.49 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 2014 was 3.5 per cent. which was adopted to calculate the fair value of options granted on 25 June 2004.

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.

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

At 30 June 2004, 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 Securities and Futures Ordinance (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 5.46 of the GEM Listing Rules were as follows:

Long positions in Shares

Name of director	Notes	Number of Shares held and nature of interest			Total	Percentage to issued share capital
		Personal interest	Corporate interest	Family interest		
Lee Siu Fong	(1)	2,334,375	163,290,625	–	165,625,000	57.27%
Leelalertsuphakun Wanee	(2)	–	163,290,625	–	163,290,625	56.46%
Li Xiaoyi	(3)	–	–	16,000,000	16,000,000	5.53%

Notes:

- (1) 2,334,375 Shares are held personally by Lee Siu Fong ("Ms. Lee") and 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 and Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun").
- (2) 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.
- (3) These shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Ms. Lue Shuk Ping, Vicky ("Ms. Lue"), the spouse of Li Xiaoyi ("Dr. Li"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

Long positions in underlying Shares of equity derivatives

Pursuant to the Pre-IPO Share Option Scheme, an executive Director was granted share options to subscribe for Shares of the Company, details of which as at 30 June 2004 were as follows:

Name	Date of grant	Exercise price	Exercise period (both dates inclusive)	Share options outstanding		Percentage to issued share capital
				as at 01.01.2004	and 30.06.2004	
Lee Siu Fong	26.06.2002	HK\$0.28	26.06.2004 – 25.06.2012	1,600,000		0.55%

The options are vested in 2 tranches as to (i) 50% exercisable not less than two years from the date of grant but not more than ten years, i.e. during the period from 26.06.2004 to 25.06.2012 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than three years from the date of grant but not more than ten years, i.e. during the period from 26.06.2005 to 25.06.2012 (both days inclusive).

Pursuant to the Share Option Scheme, certain executive and independent non-executive Directors were granted share options on 13 January 2003 and 25 June 2004 to subscribe for Shares of the Company, details of which as at 30 June 2004 were as follows:

Name	Date of grant	Exercise price	Exercise period (both dates inclusive)	Share options outstanding		Percentage to issued share capital
				as at 01.01.2004	30.06.2004	
<i>Executive Directors</i>						
Leelalertsuphakun Wanee	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	289,000	289,000	0.10%
Li Xiaoyi	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	2,890,000	2,890,000	1.00%
<i>Independent Non-executive Directors</i>						
Chan Yau Ching, Bob	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	100,000	100,000	0.03%
Chan Yau Ching, Bob	25.06.2004*	HK\$0.218	25.12.2004 – 24.06.2014	–	300,000	0.10%
Leung Yun Fai	13.01.2003	HK\$0.405	13.07.2003 – 12.01.2013	100,000	100,000	0.03%

* The options are vested in 2 tranches as to (i) 50% exercisable not less than six months from the date of grant but not more than ten years, i.e. during the period from 25.12.2004 to 24.06.2014 (both days inclusive); and (ii) unexercised balance thereof be exercisable not less than fifteen months from the date of grant but not more than ten years, i.e. during the period from 25.09.2005 to 24.06.2014 (both days inclusive).

No option granted under the Pre-IPO Share Option Scheme or the Share Option Scheme was exercised, cancelled or lapsed during the period.

Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number	Percentage to issued share capital
Lee Siu Fong	165,625,000	1,600,000	167,225,000	57.82%
Leelalertsuphakun Wanee	163,290,625	289,000	163,579,625	56.56%
Li Xiaoyi	16,000,000	2,890,000	18,890,000	6.53%
Chan Yau Ching, Bob	–	400,000	400,000	0.14%
Leung Yun Fai	–	100,000	100,000	0.03%

Saved as disclosed above, as at 30 June 2004, none of the Directors, chief executives or their associates had any personal, family, corporate or other beneficial interests of 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).

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the 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) as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in Shares

Name	Capacity	Number of Shares	Percentage to issued share capital
Huby Technology Limited	Beneficial owner	155,290,625	53.69%
High Knowledge Investments Limited (<i>Note</i>)	Beneficial owner	16,000,000	5.53%
Lue Shuk Ping, Vicky	Interest in a controlled corporation	16,000,000	5.53%

Note:

These Shares, which are legally owned by High Knowledge Investments Limited, are entirely and beneficially owned by Ms. Lue.

Long positions in underlying Shares of equity derivatives

Name	Nature of Interest	Number and description of equity derivatives	Number of underlying Shares
Lue Shuk Ping, Vicky	Family	Dr. Li, 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

Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number	Percentage to issued share capital
Huby Technology Limited	155,290,625	–	155,290,625	53.69%
High Knowledge Investments Limited	16,000,000	–	16,000,000	5.53%
Lue Shuk Ping, Vicky	16,000,000	2,890,000	18,890,000	6.53%

Saved as disclosed above, as at 30 June 2004, none other parties were 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.

SPONSOR'S INTERESTS

As at 30 June 2004, the Company's continuing sponsor, Kingsway Capital Limited ("Kingsway") 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 13 February 2004 entered into between the Group and Kingsway, Kingsway has received and will receive a fee for acting as the Company's continuing sponsor for the period from 16 February 2004 to 31 December 2004 or until the sponsor agreement is terminated upon the terms and condition set out therein.

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.

CHANGE OF DIRECTORSHIP

Mr. Leung Yun Fai resigned as independent non-executive director of the Company with effect from 30 June 2004. Mr. Lam Yat Cheong was then appointed.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with board practices and procedures as set out in Rule 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 30 June 2004.

SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, 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 ended 30 June 2004.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The Committee has three members comprising an executive Director, Ms. Lee and two independent non-executive Directors, namely, Dr. Chan Yau Ching, Bob and Mr. Lam Yat Cheong. 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 2004.

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

Independent non-executive directors:

Dr. Chan Yau Ching, Bob

Mr. Lam Yat Cheong

By order of the Board

Lee Siu Fong

Chairperson

Hong Kong, 13 August 2004