



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)

INTERIM RESULTS ANNOUNCEMENT 2002

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OF THE STOCK EXCHANGE OF HONG KONG LIMITED
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This report, for which the directors of Lee's Pharmaceutical Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Lee's Pharmaceutical Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. The information contained in this report is accurate and complete in all material respects and not misleading; 2. There are no other matters the omission of which would make any statement in this report misleading; and 3. 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

For the six months ended 30th June 2002, the turnover of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (together, the "Group") amounted to approximately HK\$5.5 million, representing an increase of about 23% over the corresponding period of 2001.

The substantial increase in turnover during the reporting period was the results of the Group's efforts in expanding the presence of the Group's products in the market place. Sales of the Group's existing self-developed biopharmaceutical product "Livaracine" has continued to grow with an increase of approximately 25% over the corresponding period of 2001, gaining market share from its competitors. The Group's newly launched product, "Yallaferon" has been gaining acceptance by the health care community, contributing to approximately 23% of the Group's turnover of the reporting period.

In addition, the Group achieved a profit attributable to shareholders of approximately HK\$145,000 for the six months ended 30th June 2002, representing a turnaround from loss of approximately HK\$2.7 million recorded for the same period in 2001. The significant improvement in the profitability of the Group was attributed to the Group's increase in sales and success in cost containment. The recorded profit signifies the overall improvement of the Group's financial position.

During the reporting period, the Group has continued to implement its new sales and marketing strategy which resulted in a further reduction of selling expenses ratio from approximately 54% of sales in 2001 to approximately 46% of sales in 2002. Productivity has also enhanced with emphasize on quality control. The Group's gel workshop has just successfully passed the field inspection for GMP certification renewal. With regard to the Group's research and development efforts, application for clinical study of Hemocoagulase has been submitted to provincial authority.

Prospects

Despite the expectation that the pharmaceutical industry in China will remain competitive in the foreseeable future, the Group is confident that overall performance of the Group continues to improve. The successful listing of the Company on GEM of the Stock Exchange in July 2002 has ushered the Group into a new era, creating an opportunity for rapid growth in the future.

Recently, the Group has entered into an agreement with an Italian pharmaceutical company to distribute their diabetes drug in the greater China area. It is the Group's strategy to leverage on the Group's well-established sales and marketing network and to broaden the revenue base of the Group.

The board (the "Board") of directors (the "Directors") of the Company has confidence in fulfilling the objectives planned early this year and the Board will endeavor to deliver a satisfactory return to the shareholders of the Company (the "Shareholders").

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, financial resources and treasury policies

As at 30th June 2002, the Group had outstanding borrowings of approximately HK\$8.9 million comprising secured bank loans of approximately HK\$2.9 million and secured other loans of approximately HK\$6 million. Out of these borrowings, approximately HK\$8 million was repayable within one year and the balance of approximately HK\$0.9 million was repayable over one year. The borrowings bear interest at prime rate less 1% per annum for Hong Kong dollar loan and at a range of 5.8% to 9% per annum for Renminbi loans. The original principal amounts of the borrowings were HK\$2 million and RMB9.5 million (equivalent to approximately HK\$11 million in total) with banking facilities of HK\$2 million and RMB2.5 million (equivalent to approximately HK\$4.3 million in total).

As at 30th June 2002, the Group had a net cash position of approximately HK\$2 million. Following the listing of the Company's shares on GEM of the Stock Exchange on 15th July 2002 (the "Listing Date") through a placement of 90,000,000 ordinary shares (the "Shares"), out of which 75,000,000 new Shares had been placed with net proceeds of approximately HK\$20 million, the liquidity position of the Group has been strengthened. The Group will apply these proceeds in the manner as disclosed in the Prospectus dated 3rd July 2002 (the "Prospectus"). In view of this capital injection and the internally generated funds, the Group did not anticipate any liquidity problem even it has net current liabilities of approximately HK\$4.4 million as at 30th June 2002.

The Group did not have any significant capital commitments as at 30th June 2002. The Group adopts conservative treasury policies in cash and financial management with all bank deposits in either Hong Kong dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Material acquisition, disposal and significant investment

The Group had no material acquisition, disposal and investment other than those set out in the Prospectus during the six months ended 30th June 2002 and 2001. At present, the Group has no future plan for material investments and acquisition of capital assets other than those mentioned in the Prospectus.

Employee information

As at 30th June 2002, the Group has 102 (31st December 2001: 114) staff working in the People's Republic of China ("PRC") and Hong Kong. The staff costs, including Directors' remuneration were approximately HK1.5 million for the six months ended 30th June 2002 as compared with that of approximately HK\$1.2 million for the corresponding period of the preceding financial year.

The Group offers a remuneration package and a range of additional benefits to its employees, including pension and medical benefits. In order to motivate quality employees, the Company has adopted a pre-IPO share option scheme and a share option scheme.

Pursuant to a pre-IPO share option scheme adopted by the Company on 26th June 2002, the Company had granted pre-IPO share options to two executive Directors and two employees of the Group to subscribe for a total of 5,000,000 Shares at an exercise price of HK\$0.28 per Share. No options granted pursuant to the pre-IPO share option scheme have been exercised or cancelled since then.

Charges on Group assets

As at 30th June 2002, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK\$9.8 million (31st December 2001: HK\$5.3 million) have been pledged to bank and other institutions to secure general credit facilities granted to the Group.

Gearing ratio

As at 30th June 2002, the Group has long term debts of approximately HK\$3.4million and Shareholder's funds of approximately HK\$19.3 million. Its gearing ratio (long term debts to shareholders' funds plus long term debts) improved significantly from approximately 72.3% as at 31st December 2001 to approximately 15.0% as at 30th June 2002.

Foreign exchange exposure

Currently, the Group mainly earns revenue and incurs cost in Renminbi. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group has not used any type of derivatives to hedge against any foreign currency fluctuations.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30th June 2002 and 31st December 2001.

BUSINESS PROGRESS

1. Production

Business progress up to 30th June 2002

Upgrade, enhance and expand production facilities

Workshop flooring renovated and air-conditioning system improved.

2. Marketing and sales

Expand distribution network and sales teams to explore/broaden the customer base and market coverage of regional cities and rural areas in the PRC

Distribution agreements signed with 15 new distributors covered more cities and rural areas.

3. Research and development

Development of new products.

Submit application for clinical trials for Hemocoagulase.

Submit application for phase II clinical trials of Livaracine for new indication.

CONDENSED FINANCIAL STATEMENTS

The Board of the Company announces the unaudited condensed consolidated results of the Group for the three months and the six months ended 30th June 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the three months ended 30th June 2002 2001		(Unaudited) For the six months ended 30th June 2002 2001	
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	2,925	2,384	5,552	4,517
Cost of sales		(809)	(580)	(1,545)	(994)
Gross Profit		2,116	1,804	4,007	3,523
Other revenue		85	135	75	145
Selling and distribution expenses		(1,377)	(1,187)	(2,535)	(2,438)
Administrative expenses		(1,143)	(1,179)	(2,918)	(3,568)
Loss from operations	(4)	(319)	(427)	(1,371)	(2,338)
Finance costs		(147)	(204)	(296)	(369)
Loss before taxation		(466)	(631)	(1,667)	(2,707)
Taxation	(5)	—	—	—	—
Loss before minority interests		(466)	(631)	(1,667)	(2,707)
Minority interests		1,812	—	1,812	—
Net profit (loss) attributable to shareholders		1,346	(631)	145	(2,707)
Dividend	(6)	—	—	—	—
Earnings (loss) per Share		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Basic	(7)	0.64	(0.34)	0.07	(1.47)
Diluted	(7)	0.64	(0.34)	0.07	(1.46)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30th June 2002 HK\$'000	(Audited) At 31st December 2001 HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment		16,443	10,523
Intangible asset		10,730	6,917
		27,173	17,440
Current assets			
Inventories		875	925
Amount due from a related company		105	105
Trade receivables, net	(8)	1,802	2,435
Other receivables, deposits and prepayments		2,998	1,938
Cash and bank balances		1,909	296
		7,689	5,699
Current liabilities			
Amount due to a director		—	325
Amounts due to related companies		390	392
Trade payables	(9)	404	314
Other payables		3,305	3,698
Current portion of borrowings		7,957	3,631
		12,056	8,360
Net current liabilities		(4,367)	(2,661)
Total assets less current liabilities		22,806	14,779

		(Unaudited) At 30th June 2002 HK\$'000	(Audited) At 31st December 2001 HK\$'000
	<i>Notes</i>		
Capital and reserves			
Share capital	(10)	10,711	18,400
Reserves	(11)	8,600	(14,337)
		19,311	4,063
Minority interests		105	—
Non-current liabilities			
Amounts due to related companies		1,744	4,893
Sundry creditor		680	—
Borrowings		966	5,823
		3,390	10,716
		22,806	14,779

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		(Unaudited) Six months ended 30th June 2002 <i>HK\$'000</i>	(Unaudited) Six months ended 30th June 2001 <i>HK\$'000</i>
	<i>Notes</i>		
Cash inflow from operating activities	(a)	355	163
Interest paid		(239)	(368)
Interest received		1	—
Net Cash inflow (outflow) from operating activities		117	(205)
Investing activities			
Purchase of property, plant and equipment		(21)	(71)
Additions of deferred development cost		(271)	(206)
Net Cash outflow from investing activities		(292)	(277)
Net Cash outflow before financing		(175)	(482)
Financing			
New loan		—	474
Repayment of loans		(531)	(156)
Proceeds from issue of Shares		2,200	—
Advance from a related company		502	73
Advance from a director		422	213
Payment of shares issue expenses	(b)	(793)	—
Net cash inflow from financing		1,800	604
Increase in cash and cash equivalents		1,625	122
Cash and cash equivalents at beginning of the period		296	485
Effect of foreign exchange rate changes		(12)	(379)
Cash and cash equivalents at end of the period	(c)	1,909	228

NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation from loss before taxation to cash inflow from operating activities

	(Unaudited) Six months ended 30th June 2002 <i>HK\$'000</i>	(Unaudited) Six months ended 30th June 2001 <i>HK\$'000</i>
Loss before taxation	(1,667)	(2,707)
Adjustment for:		
Depreciation on property, plant and equipment	659	590
Amortisation of deferred development cost	278	—
Interest expenses	293	368
Interest income	(1)	—
Operating loss before working capital changes	(438)	(1,749)
Decrease (increase) in inventories	50	(94)
Decrease in trade receivables	633	833
Increase in other receivables, deposits and prepayments	(267)	(363)
Increase in trade payables	90	185
Increase in other payables	287	1,351
Cash inflow from operating activities	355	163

(b) Payment of shares issue expenses

The shares issue expenses represent the prepaid listing expenses for the Company's Shares listed on GEM on 15th July 2002

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and in banks.

Cash and cash equivalent included in the condensed consolidated cash flow statement represent the following balance sheet amount:

	(Unaudited) Six months ended 30th June 2002 <i>HK\$'000</i>	(Unaudited) Six months ended 30th June 2001 <i>HK\$'000</i>
Cash and bank balances	1,909	228

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)						
	Share capital	Share premium	Merger difference	Revaluation reserve	Exchange reserves	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2001	6,400	—	—	—	173	(13,005)	(6,432)
Exchange rate adjustment	—	—	—	—	(143)	—	(143)
Loss for the period	—	—	—	—	—	(2,707)	(2,707)
At 30th June 2001	6,400	—	—	—	30	(15,712)	(9,282)
At 1st 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	—	—	—	4,613	—	—	4,613
Exchange rate adjustment	—	—	—	—	50	—	50
Profit for the period	—	—	—	—	—	145	145
At 30th June 2002	10,711	8,929	9,200	4,613	35	(14,177)	19,311

The share capital shown on the condensed consolidated balance sheet as at 31st December 2001 represents the nominal value of the share capital of Lee's Pharmaceutical (HK) Limited, a Company's subsidiary and the Group's then ultimate holding company, as at that date.

CONDENSED STATEMENT OF RECOGNISED GAINS OR LOSSES

	(Unaudited) Six months ended 30th June 2002 HK \$'000	(Unaudited) Six months ended 30th June 2001 HK \$'000
Net gains (losses) not recognised in the condensed consolidated income statement		
Gain on revaluation of property, plant and equipment	4,613	—
Exchange differences arising on translation of overseas operations	50	(143)
Net profit (loss) for the period	145	(2,707)
Total recognised gains (losses)	4,808	(2,850)

1. Group Reorganisation, basis of preparation and principal accounting policies

- (a) The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17th December 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands.
- (b) In order to facilitate the future expansion of the business of the Group and in preparation for the listing of the Shares on GEM, the Group effected the reorganisation, pursuant to which the Company became the ultimate holding company of the Group. The reorganisation involved the following:
- (i) on 13th December 2001, Lee's Pharmaceutical (HK) Limited ("Lee's Pharmaceutical") increased its authorised share capital from HK\$6,400,000 to HK\$23,000,000.
- (ii) on 27th December 2001, Dynamic Achieve Investments Limited ("Dynamic Achieve") transferred 800,000 shares of HK\$1 each in Lee's Pharmaceutical to Techfarm Investment Limited ("Techfarm") at a consideration of HK\$800,000 in cash.
- (iii) on 30th December 2001, Lee's Machinery Limited ("Lee's Machinery") assigned an interest free loan of approximately HK\$15,132,516.05 due from Lee's Pharmaceutical to Huby Technology Limited ("Huby Technology") at a cash consideration equivalent to the amount of the loan.

- (iv) on 31st December 2001, the directors of Lee's Pharmaceutical capitalised part of the shareholders' loan of HK\$12,000,000 due to Huby Technology by allotting and issuing 12,000,000 shares of HK\$1 each in Lee's Pharmaceutical, credited as fully paid, to Huby Technology.
- (v) on 2nd January 2002, Lee's Machinery subscribed for 1 additional share in Huby Technology at the subscription price of US\$1 and on 3rd January 2002, it transferred all its 2 shares in Huby Technology to Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun")(as to 1 share each, i.e. 50 per cent. each) at US\$1 each.
- (vi) on 4th January 2002, Ms. Lue Shuk Ping, Vicky, the holder of one bearer share of US\$1 in High Knowledge Investments Limited ("High Knowledge"), became a registered shareholder thereof by exchanging the one bearer share held by her into a registered share.
- (vii) on 19th February 2002, Huby Technology, Dynamic Achieve and High Knowledge transferred an aggregate of 17,600,000 shares of HK\$1 each in Lee's Pharmaceutical to Lee's Pharmaceutical International Limited ("Lee's International") in consideration of which the Company allotted and issued an aggregate of 176,000,000 Shares to Huby Technology, Dynamic Achieve and High Knowledge under a share exchange agreement dated 4th February 2002 and on the same day, Mapcal Limited also transferred the one subscriber Share to Huby Technology at a consideration of US\$1.
- (viii) on 19th February 2002, Techfarm transferred 800,000 shares of HK\$1 each in Lee's Pharmaceutical to Lee's International in consideration of which the Company allotted and issued 8,000,000 Shares to Techfarm under another share exchange agreement dated 4th February 2002.
- (ix) on 25th February 2002, the Company allotted and issued to Zengen Inc. ("Zengen") 9,599,999 Shares under a patent application license agreement dated 2nd February 2002 and on the same day, Huby Technology also transferred the one subscriber Share to Zengen at a consideration of US\$1.
- (x) on 12th June 2002, the directors and shareholders of the Company resolved to:
 - (a) capitalise an amount of HK\$3,653,000 out of HK\$5,319,478.71 owed to Huby Technology by its indirect wholly owned subsidiary, Lee's Pharmaceutical, by allotting and issuing 11,415,625 Shares, credited as fully paid, to Huby Technology; and
 - (b) capitalise an amount of HK\$747,000 owed to Ms. Lee by Lee's Pharmaceutical, by allotting and issuing 2,334,375 Shares, credited as fully paid, to Ms. Lee and on 20th June 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology and Ms. Lee.

(xi) on 12th June 2002, Huby Technology subscribed for 6,875,000 Shares at the issue price of HK\$0.32 each (or an aggregate amount of HK\$2,200,000) and at the direction of the Company, Huby Technology has paid the subscription monies to Lee's Pharmaceutical direct and on 20th June 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology.

(xii) on 15th July 2002, the Shares of the Company were listed on GEM by placing 75,000,000 new Shares to public.

- (c) The unaudited 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 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 Rules Governing the Listing of Securities on GEM of the Stock exchange (the "GEM Listing Rules").

- (d) The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used for the year ended 31st December 2001 which were set out in the Accountants' Report in the Prospectus.
- (e) The Group reconstruction as more fully described in Prospectus dated 3rd July 2002 is accounted for under merger accounting in accordance with the statements of Standard Accounting Practice No. 27 "Accounting for Group Reconstruction" issued by Hong Kong Society of Accountants.

2. Turnover

Turnover represents the net amount received and receivable for goods sold to customers during the period.

3. Segment information

The Group is principally engaged in the development, manufacturing and sales of pharmaceutical products solely in the PRC for the three months and six months ended 30th June 2002 and 2001. No segment information is presented accordingly.

4. **Loss from operations**

	(Unaudited)		(Unaudited)	
	For the three months		For the six months	
	ended 30th June		ended 30th June	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:				
Directors' remuneration	129	87	258	174
Depreciation on property, plant and equipment	355	296	659	590
Amortisation of deferred development cost	139	—	278	—
Research expenses	115	107	230	159
Operating lease payments in respect of rented premises	196	88	388	180
Staff costs	585	554	1,197	1,071
Bad debts written off	32	61	44	149
Provision for bad debts	—	136	183	1,351
Provision for stock	—	34	—	67
And after crediting:				
Provision for bad debts written back	(236)	—	—	—
Provision for stock written back	(9)	—	(9)	—
Interest income	(1)	—	(1)	—

5. **Taxation**

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 30th June 2002 (2001: Nil).

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future assessable profits as it is not certain that the tax losses will be utilised in the foreseeable future.

6. **Dividends**

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2002 (2001: Nil).

7. Earnings (loss) per share

The calculation of basic earnings per share for the three months and six months ended 30th June 2002 is based on the net profit of HK\$1,346,000 and HK\$145,000 (Three months and six months ended 30th June 2001: loss of HK\$631,000 and HK\$2,707,000) respectively, and the weighted average number of Shares of 208,785,000 and 205,154,000 (Three months and six months ended 30th June 2001: 184,000,000) Shares in issue respectively during the periods.

For the purpose of the calculation of basic earnings per share for the three months and six months ended 30th June 2002 and 2001, the weighted average number of Shares is determined based on corporate reorganisation stated in note 1(b) to this report.

The calculation of diluted earnings per share for the three months and six months ended 30th June 2002 is based on the net profit of HK\$1,346,000 and HK\$145,000 (Three months and six months ended 30th June 2001: loss of HK\$631,000 and HK\$2,707,000) respectively, and the weighted average number of Shares of 210,285,000 and 206,654,000 (Three months and six months ended 30th June 2001: 185,500,000) Shares in issue respectively during the periods.

For the purpose of calculation of diluted earnings per share, the fair value of the Shares assumed to have been issued upon the deemed exercise of these options was determined as the issue price of HK\$0.40 per Share in respect of the Company's initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of Shares for no consideration.

8. Trade receivables, net

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) 30th June 2002 HK\$'000	(Audited) 31st December 2001 HK\$'000
1-90 days	1,191	1,250
91-180 days	475	613
181-365 days	275	595
Over 365 days and under 3 years	737	672
	2,678	3,130
Less: Provision for bad debts	(876)	(695)
	1,802	2,435

9. Trade payables

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

	(Unaudited) 30th June 2002 HK\$'000	(Audited) 31st December 2001 HK\$'000
1-90 days	294	241
91-180 days	—	23
181-365 days	99	—
Over 365 days	11	50
	404	314

10. Share capital

Authorised share capital:	HK\$'000
500,000,000 Shares of HK\$0.05 each	25,000

Issued and fully paid or credited as fully paid:

		Number of shares of HK\$0.05 each	HK\$'000
1st January 2002		1	—
Issue of Shares in exchange for shares in Lee's Pharmaceutical	(a)	184,000,000	9,200
Issue of Shares to Zengen as consideration for acquisition of Intangible asset	(b)	9,599,999	480
Issue of Shares in exchange for assignment of loan made by Huby Technology	(c)	11,415,625	571
Issue of Shares in exchange for assignment of loan made by Ms. Lee	(c)	2,334,375	116
Issue of Shares to Huby Technology for cash	(d)	6,875,000	344
As at 30th June 2002		214,225,000	10,711
As at the Listing Date		289,225,000	14,461

- (a) on 19th February 2002, Huby Technology, Dynamic Achieve and High Knowledge transferred an aggregate of 17,600,000 shares of HK\$1 each in Lee's Pharmaceutical to Lee's International in consideration of which the Company allotted and issued an aggregate of 176,000,000 Shares to Huby Technology, Dynamic Achieve and High Knowledge under a share exchange agreement dated 4th February 2002 and on the same day, Mapcal Limited also transferred the one subscriber Share to Huby Technology at a consideration of US\$1. On 19th February 2002, Techfarm transferred 800,000 shares of HK\$1 each in Lee's Pharmaceutical to Lee's International in consideration of which the Company allotted and issued 8,000,000 Shares to Techfarm under another share exchange agreement dated 4th February 2002.
- (b) on 25th February 2002, the Company allotted and issued to Zengen 9,599,999 Shares under a patent application license agreement dated 2nd February 2002 and on the same day, Huby Technology also transferred the one subscriber Share to Zengen at a consideration of US\$1.
- (c) on 12th June 2002, the directors and shareholders of the Company resolved to: (i) capitalise an amount of HK\$3,653,000 out of HK\$5,319,478.71 owed to Huby Technology by its indirect wholly owned subsidiary, Lee's Pharmaceutical, by allotting and issuing 11,415,625 Shares, credited as fully paid, to Huby Technology; and (ii) capitalise an amount of HK\$747,000 owed to Ms. Lee by Lee's Pharmaceutical, by allotting and issuing 2,334,375 Shares, credited as fully paid, to Ms. Lee and on 20th June 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology and Ms. Lee.
- (d) on 12th June 2002, Huby Technology subscribed for 6,875,000 Shares at the issue price of HK\$0.32 each (or an aggregate amount of HK\$2,200,000) and at the direction of the Company, Huby Technology has paid the subscription monies to Lee's Pharmaceutical direct and on 20th June 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology.

The share capital shown on the condensed consolidated balance sheet as at 31st December 2001 represents the nominal value of the share capital of Lee's Pharmaceutical, a Company's subsidiary and the Group's then ultimate holding company, as at that date.

11. Reserves

(Unaudited)						
	Share	Merger	Revaluation	Exchange	Accumulated	Total
Notes	premium	difference	reserve	reserves	losses	
	HK \$'000	HK \$'000	HK \$'000	HK \$'000	HK \$'000	HK \$'000
At 1st January 2002	—	—	—	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical	(10a)	—	9,200	—	—	9,200
Issue of Shares to Zengen as consideration for acquisition of intangible asset	(10b)	3,360	—	—	—	3,360
Issue of Shares in exchange for assignment of loan made by Huby Technology	(10c)	3,082	—	—	—	3,082
Issue of Shares in exchange for assignment of loan made by Ms. Lee	(10c)	631	—	—	—	631
Issue of Shares to Huby Technology for cash	(10d)	1,856	—	—	—	1,856
Surplus on revaluation of property, plant and equipment		—	—	4,613	—	4,613
Exchange rate adjustment		—	—	50	—	50
Profit for the period		—	—	—	145	145
At 30th June 2002	8,929	9,200	4,613	35	(14,177)	8,600

The merger difference of the Group represents the difference between the nominal value of the share capital of a subsidiary acquires pursuant to the Group's reorganisation set out in note 10(a) to the report over the nominal value of the share capital of the Company issued in exchange thereof.

12. Related party transactions

The Group had the following significant related party transactions during the period which were carried out in the nominal course of the Group's business.

Name of related party	Nature of transaction	(Unaudited) Six months ended 30th June	
		2002 HK\$'000	2001 HK\$'000
Lee's Machinery	Paid motor vehicle rental expenses thereto	—	51
University of Science and Technology of China ("USTC")	Interest payable	15	15

Notes:

- Ms. Lee and Ms. Leelalertsuphakun are the equal shareholders of Lee's Machinery.
- 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").
- 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 30th June 2002 and 31st December 2001, the Group had the following commitments:

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

	(Audited) At 31st December	
	(Unaudited) At 30th June 2002 HK\$'000	2001 HK\$'000
Contract amount	—	182
Deposit paid	—	(46)
	—	136

- ii) Lease commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings falling due as follows:

	(Unaudited) At 30th June 2002 HK\$'000	(Audited) At 31st December 2001 HK\$'000
Within one year	545	631
In more than one year and less than two years	131	394
	<u>676</u>	<u>1,025</u>

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARE CAPITAL

As at the Listing Date, the interests of the Directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(1) Shares

		Number of issued ordinary shares of HK\$0.05 each in the Company held and nature of interest				
Name of director	Notes	Personal	Family	Corporate	Other	Total
Ms. Lee	(i)	2,334,375	—	163,290,625	—	165,625,000
Ms. Leelalertsuphakun	(ii)	—	—	163,290,625	—	163,290,625

Notes:

- (i) The shareholding interest attributable to Ms. Lee in the Company is held personally by Ms. Lee and through Huby Technology and Dynamic Achieve. Each of Huby Technology and Dynamic Achieve is an investment holding company equally owned by Ms. Lee and Ms. Leelalertsuphakun.
- (ii) The shareholding interest attributable to Ms. Leelalertsuphakun in the Company is held through Huby Technology and Dynamic Achieve. Each of Huby Technology and Dynamic Achieve is an investment holding company equally owned by Ms. Lee and Ms. Leelalertsuphakun.

(2) Directors' and chief executive's rights to acquire shares

Pursuant to the Pre-IPO share option scheme (the "Scheme") adopted by the Company on 26th June 2002, Ms. Lee and Mr. Lau Tai Wai were granted options on 26th June 2002 to subscribe for 1,600,000 Shares and 3,000,000 Shares of the Company respectively, at a subscription price of HK\$0.28 per Share. The above options granted under the Scheme will, in respect of not more than 50% thereof, be exercisable during the period from 26th June 2004 to 25th June 2012 (both days inclusive), and in respect of the unexercised balance thereof, be exercisable during the period from 26th June 2005 to 25th June 2012 (both days inclusive).

Save as disclosed above, as at the Listing Date, none of the Directors or their associates were granted options to subscribe for Shares of the Company and none of the options has been exercised.

SHARE OPTION SCHEMES

Pursuant to a written resolution passed at the general meeting of the Company on 26th June 2002, the Company conditionally adopted the Pre-IPO Share Option Scheme and Share Option Scheme, the principal terms of which are set out in the section headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix IV to the Prospectus.

The share option granted are not recognised in the financial statements until they are exercised.

Outstanding share options

As at the Listing Date, options to subscribe for an aggregate of 5,000,000 Shares of the Company granted pursuant to the Scheme were outstanding. No option was cancelled or lapsed since date of grant. Details are as follows:

Name of grantee	Number of share options	Date of grant	Vesting period	Exercise period	Exercise price per share HK\$
<i>Executive Directors</i>					
Lee Siu Fong	800,000	26/06/2002	Not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	800,000	26/06/2002	Not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
Lau Tai Wai	1,500,000	26/06/2002	Not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	1,500,000	26/06/2002	Not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
<i>Employees</i>					
2 grantees	200,000	26/06/2002	Not more than 10 years from date of grant	26/06/2004 to 25/06/2012	0.28
	200,000	26/06/2002	Not more than 10 years from date of grant	26/06/2005 to 25/06/2012	0.28
	<hr/>				
	<u>5,000,000</u>				

Save as disclosed above, as at the Listing Date, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

The Board considers that the calculation of value of options granted is not possible as the date of grant of options was before the Listing Date.

Share Option Scheme

Up to the Listing Date, no option has been granted by the Company pursuant to the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

As at the Listing Date, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following parties are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares	
	beneficially held	Percentage of shareholding
Huby Technology	155,290,625	53.7 per cent.
Ms. Lee	165,625,000	57.3 per cent.
Ms. Leelalertsuphakun	163,290,625	56.5 per cent.

Save as disclosed above, as at the Listing Date, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, as at the Listing Date, the following parties were the Management Shareholders of the Company and were entitled to exercised or control the exercise of 5% or more of the voting power at general meetings of the Company and who are able to direct or influence the management of the Company:

Name of shareholder	Number of ordinary shares beneficially held	Percentage of shareholding
Huby Technology	155,290,625	53.7 per cent.
Dynamic Achieve	8,000,000	2.8 per cent.
High Knowledge	16,000,000	5.5 per cent.
Ms. Lee	165,625,000	57.3 per cent.
Ms. Leelalertsuphakun	163,290,625	56.5 per cent.
Ms. Lue Shuk Ping, Vicky	16,000,000	5.5 per cent.

SPONSOR'S INTERESTS

As at the Listing Date, 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 4th 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 16th July 2002 to 31st December 2004.

COMPETING INTERESTS

None of the Directors or the Management Shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which causes or may cause any significant competition with the business of the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 15th July 2002.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 26th June 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors and one executive director.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Shares of the Company commenced trading on GEM on 15th July 2002. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities during the six months ended 30th June 2002 and up to the Listing Date.

By order of the Board
Lee's Pharmaceutical Holdings Limited
Lee Siu Fong
Chairman

Hong Kong, 13th August 2002

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

** For identification purpose only*