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)

(Stock code: 8221)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

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This announcement, for which the directors (the "Directors") of LEE'S PHARMACEUTICAL HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the annual audited consolidated results of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2003.

For the Group, 2003 marked the first year that the Group have begun entering into its accelerated growth stage, reflected by an 58.86% increase in turnover over that of 2002. Both of the Group's flagship products, 《Livaracine》 and 《Yallaferon》, registered an 48.53% and 101.73% increase respectively in sales volume in comparison with those of 2002. With the installation of new leadership, the Group's distribution and sales network has continued to expand and mature, providing solid ground for more rapid growth.

The Group's drug development pace was also quicken during the year under review. A total of 8 applications were submitted to the State Food and Drug Administration ("SFDA") of the People's Republic of China (the "PRC") for approval of clinical study and two clinical studies were carried out during the year. Two of the Group's applications (1.1 category drugs) were reviewed by China Center for Drug Evaluation with the participation of the Group's representatives and outside experts during specially arranged session. We expect to start the phase I clinical study for one of the drugs later this year. In addition, the Group has received three drug registrations in Hong Kong during the year for which a team has been set up to market those products, further broadening the revenue base of the Group.

The Group's efforts in forming strategic alliance and partnership have become fruitful during the year under review. An exclusive distributorship was entered into between the Group and Sigma-Tau Industrie Farmaceutiche Riunite SpA ("Sigma-Tau"), one of the biggest independent pharmaceutical companies in Italy for 《L-carnitine》, which brings synergy to the Group's existing products as well as immediate revenue to the Group. The Group has also successfully licensed a technology with exclusivity from National Institutes of Health ("NIH") of the United States of America ("US"), one of the most premier biomedical science research institute in the world, further boosting the Group's already rich pipeline. Discussions are underway with several other biotech and pharmaceutical companies for additional technologies and products for development and marketing in both PRC and Hong Kong.

As the Group continues its relentless efforts of seizing growth opportunities, I am confident that the Group will keep up with its rapid pace of growth in the coming year and achieve improvement in every aspect of an integrated biopharmaceutical company, including but not limited to sales and marketing, drug development, manufacturing, human resource development and quality control and assurance.

Business Review

During the year 2003, the Group had made significant progress in all aspects as a dynamic and integrated biopharmaceutical group engaging in development, manufacturing and sales of proprietary and license-in drugs in the PRC and Hong Kong.

Drug development

The Group continued its efforts to expand clinical applications for its proprietary drugs. During the year, approvals were received from the SFDA of the PRC to initiate clinical studies on recurrence rate reduction of venereal warts, herpes zoster and cervicitis for 《Yallaferon》.

Moreover, approval to initiate clinical study on nephritic syndrome for《Livaracine》was also obtained from the SFDA in the year.

The Group's project "Screening of Human Heparanase Inhibitors as Anti-Cancer Drugs from Traditional Chinese Medicine" co-operated with the Department of Biology of Hong Kong University of Science and Technology ("HKUST") has discovered several "hits" from extracts derived from herbal medicines. Work is underway to optimize those "hits" and to file patent applications for these findings. Both the Group and HKUST expect the development of the project at good pace.

At the end of the year, the Group has been invited to attend a technical evaluation meeting held by SFDA regarding the Group's new drug application on Anti-fungus Peptide and Declotana. This meeting was the first kind of the SFDA in which the new drug applicant could discuss the drug technology by two-way communication. The Group was really grateful and excited with its products to be chosen as the project of the first meeting.

Products registration

During the year, the Group has obtained certification of drug registration from the Department of Health, Hong Kong for its three license-in drugs, namely《Gliconorm》from Italy for treatment of diabetes,《ArginMax》from US as health supplement and the antibiotic,《Sumamed》from Croatia.

Partnerships

The Group has obtained an exclusive distribution rights from a US biopharmaceutical company, PRB Pharmaceuticals Inc. of《Vira-38°》for treatment of influenza.

The Group has entered into an exclusive license agreement with the NIH of US for the development and commercialization of a proprietary technology titled "the methods and compositions for the promotion of hair growth utilising actin-binding peptides" for the territories of PRC, Hong Kong and Taiwan.

During the year, the Group has signed distribution agreement with the biggest independent pharmaceutical company in Italy, Sigma-Tau, under which the Group received exclusive rights to distribute Sigma-Tau's《L-carnitine》for cardiac diseases in the PRC.

Community efforts

During the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the year, the Group has donated 15,000 tubes of《Yallaferon》to 小湯山傳染病醫院 in Beijing, 5,000 tubes of《Yallaferon》to Chinese Center for Disease Control and Prevention ("Chinese CDC") and 2,400 tubes of《Yallaferon》to hospitals in Anhui Province, PRC for the use of frontline workers in the prevention of SARS.

Sales and marketing

For the PRC operation, sales and marketing teams had been restructured during the year with the appointment of Ms. Leelalertsuphakun Wanee as chief marketing officer. Moreover, medical promotion department was newly set up to enhance the marketing efforts in the PRC.

In November 2003, the setting up of sales and marketing department for Hong Kong market has been completed with the leadership of two sales and marketing managers who have years of experience in major multinational pharmaceutical companies in Hong Kong.

Financial Review

Financial Performance

For the year ended 31 December 2003, the Group's turnover achieved an 58.86% increase to HK$18.50 million as compared with last year. The Group's overall gross margin had dropped slightly to approximately 72.25% in 2003 from that of 72.52% in 2002 because of the commencement of selling license-in product with lower gross margin of 22.27%. Loss before minority interest was HK$5.36 million in 2003 (2002: HK$5.35 million).

Turnover for the year under review included the Group's sales of license-in product of approximately HK$1.08 million which was only launched in November of 2003.

Sales of proprietary drug,《Livaracine》, was approximately HK$10.80 million representing 58.41% of the Group's total turnover.《Livaracine》has increased by 30.00% over last year and was still in its growing path. The persistent increase in turnover was mainly attributed to the wider acceptance of《Livaracine》by medical professionals in the PRC.

Sales of the Group's another flagship product,《Yallaferon》, increased by 110.65% over last year which was mainly resulted from the widely use of《Yallaferon》in the prevention of SARS in the PRC.

Selling and distribution expenses to turnover ratio continually reduced from 43.20% in 2002 to 37.03% in 2003 due to tight control of expenses and successful implementation of sales strategy.

The administration expenses were HK$12.05 million for 2003 (2002: HK$8.42 million), representing an increase of 43.24% compared to the previous year. Since the listing of the Company's shares (the "Shares") on the GEM of the Stock Exchange in July 2002, the administrative expense for statutory compliance increased then. As compared with the second half year of 2002, administrative expenses for current year were slightly increased by 9.64% only. The increase was mainly attributed to the one-off payment incurred on departure of a director and fee paid to an overseas consultant who is responsible for searching strategic alliance with overseas pharmaceutical companies.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2003.

Liquidity, Financial Resources and Treasury Policies

During the year under review, the Group financed its operations by internally generated cash flow, banking facilities provided by banks and a portion of the listing net proceeds.

As of 31 December 2003, the Group had cash and bank balances and the pledged bank deposits of approximately HK$12.53 million (2002: HK$18.41 million). In terms of liquidity, the current ratio (current assets/current liabilities) was improved to about 1.71 times (2002: 1.54 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, development requirements and investments in future.

As at 31 December 2003, the Group has long term debts of approximately HK$4.85 million and shareholders' funds of approximately HK$29.04 million. Its gearing ratio (long term debts to shareholders' funds plus long term debts) was 14.31% as at 31 December 2003 (2002: 4.71%).

The Group adopts conservative treasury policies in cash and financial management with all bank deposits in either Hong Kong dollars, US dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. The Group's liquidity and financing arrangements are reviewed regularly.

Charges on Group Assets

As at 31 December 2003, the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$11.13 million (2002: HK$11.69 million) have been pledged to bank and other institutions to secure general credit facilities granted to the Group.

In addition, time deposits of about HK$8.33 million were pledged as securities for banking facilities as at 31 December 2003 (2002: HK$4.35 million).

Employee Information

As at 31 December 2003, the Group employs a total of 149 full time employees (2002: 115) with a total staff cost in the year of approximately HK$4.78 million (2002: HK$3.85 million).

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 31 December 2003, the Company had issued corporate guarantees of HK$5.00 million (2002: nil) and fixed deposit of HK$8.33 million (2002: HK$4.35 million) to banks in respect of banking facilities granted to its subsidiary of which approximately HK$3.36 million had been utilised.

Business Outlook

The Group is optimistic about its prospects for 2004 and is confident to achieve significant growth in turnover and overall profit. For the two existing proprietary drugs, 《Livaracine》 and 《Yallaferon》, the Group expects to continue its sales efforts to keep up with the growth pace. Moreover, in the coming year, the Group will devote much marketing and promotional efforts for its license-in products to the best extent possible.

Last, but not the least, the Group will continue to broaden the revenue base of the Group by launching additional products in Hong Kong market and build up strong pipeline by aggressively forming partnerships with reputable research institute and biopharmaceutical companies to achieve sustainable growth.

Use of Proceeds

The net proceeds after deducting the listing expenses had been utilised 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	**Actual amount utilised from 15 July 2002 (the date of listing) to 31 December 2003**	
	HK$'000	*HK$'000*	*Notes*
For production	5,594	1,302	(a)
For sale and marketing	2,562	2,042	(b)
For research and development	2,485	1,410	(c)
Repayment of third party loans	2,984	1,592	(d)
For additional working capital	1,008	1,008	
	14,633	7,354	

Notes:

(a) In view of the level of sales increment and the progress of new products development, the Directors delayed the budgeted expansion of various production facilities and systems. It is expected new equipment for expansion may not be required until 2004. Please also refer to "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". Though the schedule of self developed projects has been hindered, sales of several license-in drugs will generate the Group's total revenue to grow even faster than expected.

(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.

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 31 December 2003 as stated in Prospectus	**Actual Progress up to 31 December 2003**
Production:	
• Install and commission new purification system for purification workshop	• The plan for new purification system installation is deferred as the existing system is still functioned and capable for existing production level.
• Purchase new equipment for raw material workshop to increase the production capacity	• Due to changes in the new drug registration regulations that came into effect in December 2002, the classification of Hemocoagulase has been changed from chemical drug to biological drug. As a result, additional experiments were required to comply with the new regulations and the registration file was needed to be reworked which led to a significant delay of subsequent planned clinical trial. As a matter of fact, the application for clinical trial of Hemocoagulase has just been submitted to the SFDA in November 2003. Therefore, the Hemocoagulase project has been delayed and the need to purchase related equipment has been pushed back. The expected date of purchase will be in the fourth quarter of 2004.
• Install and commission imported lyophilized machine to increase the production capacity	• Domestic lyophilized machine instead of imported one had been installed and commissioned due to cost effectiveness. Maximum production capacity has been increased by 100%.

Business Objectives up to 31 December 2003 as stated in Prospectus	**Actual Progress up to 31 December 2003**
Sales and marketing: • Establish Chengdu and Wuxi branch office to expand the Group's sales efforts	• 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 that 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.
• Expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts	• Sales and marketing team of Guangzhou sales office and Shanghai branch office have been restructured during the year under review. Additional staffs of more than 50% have been recruited to strengthen the whole sales team in the PRC in the year.
• Launch (i) Hemocoagulase; (ii) protein-free calf blood extract eye gelatin and (iii) Livaracine for new indication into the market	• 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.
Research and development: • Declotana: (i) Submit application for clinical trials; (ii) Enter phase II clinical trial	• The application for clinical trials had been submitted and the technical evaluation meeting was just held in mid-December 2003 by SFDA for approval discussion. Clinical trial is expected to be carried out in the first quarter of 2005.
• Topical Gel Livaracine: (i) Submit application for clinical trials; (ii) Commence phase II clinical trials	• The development works are still underway and few technical issues have to be addressed before it is ready for application. The Directors do not expect to file the application for clinical trial before the end of 2004.

Business Objectives up to 31 December 2003 as stated in Prospectus	**Actual Progress up to 31 December 2003**
• Hemocoagulase: submit application for clinical trials	• The application has been submitted.
• Protein-free Calf Blood Extract Eye Gelatin: commence phase II clinical trials	• The formal approval for clinical study is expected soon and clinical study is expected to start in the second quarter of 2004.
• Livaracine for new indication: commence phase II clinical trials	• The commencement date of the study has been pushed back due to the Group's need to prioritise its resources. It is expected now to initiate the study in the first quarter of 2005.
• Anti-fungus Peptide: (i) Commence phase I clinical trial (ii) Commence phase II clinical trial	• After the special review session that involved the Group and outside experts, additional materials are requested by the SFDA and the Group is working on them now. Resubmission will be made by end of March 2004 and phase I study is expected to start in the third quarter of 2004.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	Notes	2003 HK$'000	2002 (Restated) HK$'000
Turnover	3	**18,498**	11,644
Cost of sales		**(5,134)**	(3,200)
Gross Profit		**13,364**	8,444
Other revenue	5	**714**	216
Selling and distribution expenses		**(6,850)**	(5,030)
Administrative expenses		**(12,054)**	(8,415)
Loss from operations	6	**(4,826)**	(4,785)
Finance costs	7	**(593)**	(596)
Loss before taxation		**(5,419)**	(5,381)
Taxation	8	**56**	32
Loss before minority interest		**(5,363)**	(5,349)
Minority interest		**–**	1,621
Net loss for the year		**(5,363)**	(3,728)
Dividends	9	**–**	–
		HK cents	*HK cents*
Loss per Share			
Basic	10	**(1.85)**	(1.52)
Diluted	10	**(1.85)**	(1.51)

CONSOLIDATED BALANCE SHEET

At 31 December 2003

	Notes	2003 HK$'000	2002 (Restated) HK$'000
Non-current assets			
Property, plant and equipment	11	**15,124**	15,483
Intangible assets	12	**11,177**	10,950
Deferred tax assets		**8**	–
Pledged bank deposits		**–**	3,002
		26,309	29,435
Current assets			
Inventories		**2,218**	875
Amount due from a related company		**103**	103
Trade receivables	13	**1,103**	1,458
Other receivables, deposits and prepayments		**2,324**	1,153
Pledged bank deposits		**8,331**	1,346
Cash and bank balances		**4,201**	14,064
		18,280	18,999
Current liabilities			
Amount due to related companies		**384**	384
Trade payables	14	**198**	129
Trust receipts		**809**	–
Other payables		**4,911**	4,170
Current portion of borrowings		**4,394**	7,620
		10,696	12,303
Net current assets		**7,584**	6,696
Total assets less current liabilities		**33,893**	36,131
Capital and reserves			
Share capital		**14,461**	14,461
Reserves		**14,581**	19,970
		29,042	34,431
Minority interest		**–**	–
Non-current liabilities			
Deferred tax liabilities		**893**	942
Borrowings		**3,958**	758
		4,851	1,700
		33,893	36,131

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Share capital *HK$'000*	Share premium *HK$'000*	Merger difference *HK$'000*	Revaluation reserve *HK$'000*	Exchange reserves *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2002	–	–	–	–	(15)	(14,322)	(14,337)
Issue of Shares in exchange for shares in Lee's Pharmaceutical (HK) Limited	9,200	–	9,200	–	–	–	18,400
Issue of Shares to Zengen Inc. as consideration for acquisition of intangible asset	480	3,360	–	–	–	–	3,840
Issue of Shares in exchange for assignment of loan made by Huby Technology Limited	571	3,082	–	–	–	–	3,653
Issue of Shares in exchange for assignment of loan made by Ms. Lee Siu Fong	116	631	–	–	–	–	747
Issue of Shares to Huby Technology Limited for cash	344	1,856	–	–	–	–	2,200
Issue of new Shares to public	3,750	26,250	–	–	–	–	30,000
Share issue expenses	–	(10,292)	–	–	–	–	(10,292)
Surplus on revaluation of property, plant and equipment not recognised in consolidated income statement (restated)	–	–	–	3,921	–	–	3,921
Exchange rate adjustment not recognised in consolidated income statement (restated)	–	–	–	–	27	–	27
Net loss for the year (restated)	–	–	–	–	–	(3,728)	(3,728)
At 31 December 2002, as restated	14,461	24,887	9,200	3,921	12	(18,050)	34,431
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	–	–	–	–	(26)	–	(26)
Net loss for the year	–	–	–	–	–	(5,363)	(5,363)
At 31 December 2003	14,461	24,887	9,200	3,921	(14)	(23,413)	29,042

Notes:

1. General

The Company is a public limited company in the Cayman Islands and its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the development, manufacturing and sales of pharmaceutical products.

2. Adoption of Hong Kong Financial Reporting Standards/Changes in Accounting Practice

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants (the "HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
SSAP 35	Government grant

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2002 have not been changed as no cumulative effect of the change in policy on the results for the periods prior to 2002. The balance on the Group's properties revaluation reserve at 1 January 2003 has been reduced by HK$692,000, representing the deferred tax liability after minority interest recognised in respect of the revaluation surplus on the Group's properties at the date. The effect of the change is an increased credit to income taxes in the current year of HK$56,000 (2002: HK$32,000).

In the current year, the Group has adopted SSAP 35 "Government grants". In previous periods, government grants were credited directly to equity. In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the accounting provision of SSAP 35 only to grants or portions becoming receivable or repayable after the adoption of the Standard.

3. Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

4. SEGMENTAL INFORMATION

Business segments

The following table presents turnover, results and certain asset, liability and expenditure information for the Group's business segments.

	Proprietary products		**License-in products**		**Consolidated**	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**17,421**	11,644	**1,077**	–	**18,498**	11,644
Segment results	**823**	(4,785)	**(146)**	–	**677**	(4,785)
Interest income					**141**	–
Unallocated expenses					**(5,644)**	–
Loss from operations					**(4,826)**	(4,785)
Finance costs					**(593)**	(596)
Loss before taxation					**(5,419)**	(5,381)
Taxation					**56**	32
Loss before minority interests					**(5,363)**	(5,349)
Segment assets	**24,321**	48,434	**12,131**	–	**36,452**	48,434
Unallocated assets					**8,137**	–
Total assets					**44,589**	48,434
Segment liabilities	**12,807**	14,003	**2,277**	–	**15,084**	14,003
Unallocated liabilities					**463**	–
Total liabilities					**15,547**	14,003
Other segment information:						
Capital additions	**923**	64	**240**	–	**1,163**	64
Depreciation and amortisation	**1,988**	1,952	**60**	–	**2,048**	1,952
Allowance for bad and doubtful debts	**(400)**	(89)	**–**	–	**(400)**	(89)

Geographical segments

During the years ended 31 December 2003 and 2002, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		**Hong Kong**		**Total**	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**24,321**	48,434	**20,268**	–	**44,589**	48,434
Segment liabilities	**12,807**	14,003	**2,740**	–	**15,547**	14,003

5. Other revenue

	2003	2002
	HK$'000	*HK$'000*
Other income	**571**	113
Interest income on bank deposits	**143**	103
	714	216

6. Loss from operations

	2003	2002
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**1,502**	1,405
Amortisation of intangible assets	**546**	547
Total depreciation and amortisation	**2,048**	1,952
Auditors' remuneration	**431**	446
Staff costs	**4,783**	3,848
Research and development costs	**241**	57
Operating lease payments in respect of rented premises	**935**	738
Loss on disposal of property, plant & equipment	**–**	2
Bad debts written off	**484**	212
Allowance for bad and doubtful debts written back	**(401)**	(89)
Stock written back	**–**	(12)

7. Finance costs

	2003	2002
	HK$'000	*HK$'000*
Interest on:		
Bank loans and other borrowings wholly repayable within five year	**492**	561
Amount due to a related company	**29**	29
	521	590
Bank charges	**72**	6
	593	596

8. Taxation

	2003	2002
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
The PRC	**–**	–
	–	–
Deferred tax		
Credit of current year	**56**	32
Taxation attributable to the Group	**56**	32

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

Taxes arising in other jurisdictions of the PRC are calculated at the rates of tax prevailing in the PRC.

The tax credit for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2003	2002
	HK$'000	*HK$'000*
Loss before taxation	**(5,419)**	(5,381)
Tax at applicable rate	**(920)**	(821)
Tax effect of non-deductible expenses	**325**	539
Tax effect of non-taxable revenues	**(544)**	(173)
Tax effect on temporary differences not recognised	**(41)**	(24)
Tax effect of tax losses not recognised	**920**	389
Utilisation of tax losses previously not recognised	**204**	58
Tax credit for the year	**(56)**	(32)

At the balance sheet date, the Group has unused estimated tax losses of HK$9.7 million (2002: HK$5.7 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

9. Dividends

No dividend was paid or proposed during 2003, nor has any dividend been proposed since the balance sheet date (2002: Ni1).

10. Loss per share

The calculation of basic and diluted loss per share is based on the following data:

	2003	2002
		(Restated)
Loss:		
Net loss for the year for the purposes of basic and diluted loss per share	**HK$5,363,000**	HK$3,728,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	**289,225,000**	244,658,562
Effect of dilutive potential ordinary shares: Options	**1,216,216**	1,500,000
Weighted average number of ordinary shares for the purposes of diluted loss per share	**290,441,216**	246,158,562

11. Property, plant and equipment

	Land and buildings *HK$'000*	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Office and laboratory equipment *HK$'000*	Total *HK$'000*
The Group					
COST OR VALUATION					
At 1 January 2003	12,802	178	5,493	1,996	20,469
Exchange rate adjustments	(17)	–	(7)	(2)	(26)
Additions	–	72	866	225	1,163
At 31 December 2003	12,785	250	6,352	2,219	21,606
Comprising:					
At cost	–	250	6,352	2,219	8,821
At valuation	12,785	–	–	–	12,785
	12,785	250	6,352	2,219	21,606
DEPRECIATION AND IMPAIRMENT					
At 1 January 2003	1,116	44	2,287	1,539	4,986
Exchange rate adjustments	(1)	–	(3)	(2)	(6)
Charge for the year	544	40	621	297	1,502
At 31 December 2003	1,659	84	2,905	1,834	6,482
NET BOOK VALUES					
At 31 December 2003	11,126	166	3,447	385	15,124
At 31 December 2002	11,686	134	3,206	457	15,483

The land and buildings are situated in the PRC under medium-term leases.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$5.2 million (2002: HK$5.4 million).

The Group has pledged land and buildings having a net book value of approximately HK$11.1 million (2002: HK$11.7 million) to secure general banking facilities granted to the Group.

12. Intangible assets

	Development cost
	HK$'000
COST	
At 1 January 2003	11,771
Exchange rate adjustments	(9)
Additions	781
At 31 December 2003	12,543
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	821
Exchange rate adjustments	(1)
Charge for the year	546
At 31 December 2003	1,366
NET BOOK VALUES	
At 31 December 2003	11,177
At 31 December 2002	10,950

Intangible assets represent development cost which comprise fees paid to medical research institutions and expenses incurred in developing new pharmaceutical products.

13. Trade receivables

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers.

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

	2003	2002
	HK$'000	*HK$'000*
1 – 90 days	**785**	888
91 – 180 days	**146**	465
181 – 365 days	**343**	210
Over 365 days and under 3 years	**34**	501
	1,308	2,064
Less: Allowance for bad and doubtful debts	**(205)**	(606)
	1,103	1,458

14. Trade payables

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

	2003	2002
	HK$'000	*HK$'000*
1 – 90 days	**149**	67
91 – 180 days	**1**	–
181 – 365 days	**21**	–
Over 365 days	**27**	62
	198	129

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities during the year ended 31 December 2003 (2002: Nil).

BOARD PRACTICES AND PROCEDURES

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 throughout the year ended 31 December 2003.

SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated 13 February 2004 entered into between the Company and Kingsway Capital Limited ("Kingsway"), Kingsway is entitled to 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.

Kingsway has confirmed that save for the above, (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 as at 31 December 2003.

Pursuant to the agreement dated 4 October 2000 entered into between the Company and Goldbond Capital (Asia) Limited (formerly known as Asia Investment Capital Limited) ("Goldbond Capital"), whereby, for a fee, Goldbond Capital would act as the Company's sponsor for the period from 15 July 2002 to 31 December 2004. The Company and Goldbond Capital have mutually agreed to terminate the engagement of Goldbond Capital as sponsor to the Company with effect from 16 February 2004.

AUDIT COMMITTEE

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

The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2003, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with the external auditors and provided advices and recommendations to the Board.

AUDITORS

The financial statements have been audited by HLM & Co. who retire and, being eligible, offer themselves for re-appointment.

Lee Siu Fong
Chairman

Hong Kong, 25 March 2004