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**CK Life Sciences Int'l. (Holdings) Inc.**

長江生命科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

## HALF-YEAR REPORT FOR THE PERIOD ENDED 30 JUNE 2003

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

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*This announcement, for which the directors (the “Directors”) of CK Life Sciences Int'l., (Holdings) Inc. (the “Company”) 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 (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.*

## CHAIRMAN'S STATEMENT

### Healthy Strides

### Sustained Progress

Hong Kong witnessed an unprecedented health crisis in the first six months of 2003 with the emergence of Severe Acute Respiratory Syndrome ("SARS"). Despite the general doldrums that have affected sales operations, CK Life Sciences Int'l., (Holdings) Inc. and its subsidiaries (the "Group") achieved a net profit of HK\$251,000 in the second quarter of 2003, marking the Group's third consecutive quarter with operating profit since its initial public offer ("IPO") one year ago. The Group, with its focus on environmental sustainability and human health, continued to make strong strides.

### Interim Results

During the six months ended 30 June 2003, the Group recorded an unaudited turnover of HK\$12,021,000 (turnover in the corresponding period last year was HK\$432,000) and profit attributable to shareholders of HK\$478,000 (loss attributable to shareholders in the corresponding period last year was HK\$49,368,000). For the six months ended 30 June 2003, earnings per share were 0.0075 cent, compared with a loss of 0.968 cent per share for the same period last year. The Board of Directors has not declared any interim dividend for the period under review.

### Progress and Development

During the period under review, the Group has made a number of achievements:

- strong market acceptance and recognition for NutriSmart™, the eco-fertilizer products;
- impressive trial results of WonderTreat™, the bioremediation solutions;
- the launch of an immuno-enhancing nutraceutical product, VitaGain™, in Hong Kong; and
- significant progress in R&D for human health treatment products, especially for AIDS and cancer.

### Rapid Pace in Product Commercialization

#### 1) NutriSmart™

During the period under review, rapid progress was made in market coverage and market share expansion.

- As of today, a network of nine markets spanning three continents has been established.
- Recognition of NutriSmart™'s value in sustainable agriculture and its position as an alternative to traditional chemical fertilizers are gaining grounds in different markets around the world as adoption rate accelerates.
- Initiatives catering to premium market segments, such as Good Agricultural Practice (GAP) farming for Chinese medicinal herbs, organic fruits and vegetables, and golf courses have been launched and are well underway.

## 2) WonderTreat™

Trial sale results of WonderTreat™ in Mainland China and Australia have been impressive.

- The successful trial of WonderTreat™ in Mainland China, for the removal of odour and the acceleration of composting of chicken manure into fertilizer has initiated a base for sales development.
- The two testing programs of WonderTreat™ in South Australia for the treatment of pig manure and municipal wastewater have both produced notable results in terms of increasing effectiveness and efficiency.

## 3) VitaGain™

The unfortunate outbreak of SARS in Hong Kong has heightened awareness of health related issues in the Special Administrative Region. Against this backdrop, an immuno-enhancing nutraceutical product, VitaGain™, developed by the Group was launched during the period under review.

- Based on the Group's proprietary yeast-based technology platform, VitaGain™ is the first in a series of immuno-enhancing products in CK Life Sciences' human health portfolio.
- Since its launch in Hong Kong, there has been growing acceptance of VitaGain™ in the market, and plans are underway to capture the increasing market opportunity arising from a general increase in health consciousness.
- Plans to expand the distribution of VitaGain™ to other parts of the world are also being developed.
- The launch of VitaGain™ in Hong Kong marks an important milestone for CK Life Sciences' human health product commercialization process and has provided valuable experience for the Group with regard to health product manufacturing, branding and marketing. The wide recognition received for VitaGain™ has demonstrated that the Group's strategies are on track, and has facilitated in speeding up the commercialization process for other nutraceutical products.

### Encouraging R&D Progress

#### 1) Patent

The patentability of the Group's products reflects the unique characteristic of the inventions and demonstrates the research and development capability of the Group. The Group's portfolio of intellectual property expanded considerably during the reporting period.

- 3 patents were granted and 1 approval notification received for eco-fertilizer products.
- 18 applications for different types of cancer and one for animal-feed additive have been submitted.

- The latest status of the Group’s patent applications is as follows:

	Eco-agriculture		Bio-remediation	Nutra-ceuticals	Pharma-ceuticals	Dermato-logicals	Total
	Eco-fertilizer	Animal Feed Additive					
Patent Granted	4	-	5	-	-	-	9
Patent Approved (Notice of Allowance Received)	1	-	-	-	-	-	1
Patent Pending	1	14	3	10	20	-	48
Drafting Stage	4	4	7	-	30	5	50
<b>Total</b>	<b>10</b>	<b>18</b>	<b>15</b>	<b>10</b>	<b>50</b>	<b>5</b>	<b>108</b>

## 2) Accelerating Research for Human Health Products

The success of biotechnology companies largely depends on research and development. One major mission of the Group is to develop innovative scientific solutions that can meet huge untapped market needs, such as those for the treatment of AIDS and cancer. During the reporting period, there was significant progress made in the research of human health products, especially those for AIDS and cancer.

- **AIDS Research**

CK Life Sciences AIDS Research Institute extended its global AIDS research program to the United States through a joint research project with the Partners AIDS Research Center, a unit of Harvard Medical School. The study involves investigating the immuno-modulating effects of CK Life Sciences’ AIDS product in blood samples from HIV positive and negative individuals. Findings from the research will not only speed up the development and registration of CK Life Sciences’ AIDS product but also the development of other immuno-enhancing products. The geographic scope of the global AIDS research program now covers Mainland China, Australia and the United States.

- **Cancer Research**

(i) Cancer is the leading cause of death by disease in the world.

(ii) The Group is now aggressively accelerating the research of potential cancer product applications to tap into this huge market. 18 patent applications have already been submitted and collaboration research with world-renowned cancer research institutes will be lined up shortly.

(iii) The Group’s R&D approach is unique in that the cancer treatments do not only aim at slowing down the progress of cancer, reducing the mortality rate, but more importantly, decreasing the side effects experienced by patients receiving chemotherapy/radiotherapy.

## New Acquisition Move

The Group recently made its first acquisition by investing in a 50% interest of Jean-Marie Pharmacal Company Limited (“Jean-Marie”), one of the few pharmaceutical and health care manufacturing plants in Hong Kong to have obtained a GMP (Good Manufacturing Practice) Compliance Certificate. This strategic move further strengthens CK Life Sciences’ manufacturing capabilities for health-related products and reinforces the Group’s position as a biotechnology company with integrated R&D, product distribution and manufacturing functions.

## Financial Management

As the prospects of biotechnology companies primarily hinge on R&D, substantial financial resources provide an essential impetus to success. In this respect, CK Life Sciences is in an almost enviable position.

Funds from the IPO are being placed in liquid financial instruments, which provide an additional profit stream as well as ample funding for ongoing necessary research and development activities. As a result, the Group’s R&D pace has been faster and product development cycles have been shorter than the industry norm.

It is expected that this effective financial formula will continue to fuel the success of the Group in the coming years.

## **Prospects**

CK Life Sciences will press on to expand market coverage and widen market adoption of the Group’s products that have been launched, namely NutriSmart™, WonderTreat™ and VitaGain™. In the meantime, extensive and dedicated initiatives will be made to speed up the R&D for health-related products. Plans are in place to:

- broaden the nutraceutical line in the market;
- carry out more extensive in-depth AIDS research; and
- accelerate and intensify cancer R&D activities.

The uniqueness of the Group lies in its all encompassing vision and its ability to anticipate trends. The Group will leverage its strengths to develop products aimed at solving urgent problems in environmental sustainability and human health. Each product application has been developed to meet sizeable global market demand. All efforts are made to accelerate entry into these markets. The Board of Directors is optimistic about the promising prospects of the Group.

## **Acknowledgements**

I wish to thank our hard working staff and management for their continued contribution to the development of the Group during the period. I also wish to thank our investors for their ongoing, invaluable support. I am confident this long-term backing will be rewarded in the future.

**Li Tzar Kuoi, Victor**  
Chairman

Hong Kong, 7 August 2003

## **FINANCIAL REVIEW**

### **Financial resources, liquidity and treasury policies**

The Group has been financing its operations and research and development activities with internal financial resources. As at 30 June 2003, the total current assets of the Group amounted to about HK\$373,307,000 of which about HK\$256,251,000, or 69% were cash and bank balances. Besides, the Group has also maintained a portfolio of liquid investments (mostly in the form of debt securities) which had a total market value of about HK\$2,264,473,000 at the end of the period under review. With such a strong liquidity position, the Group continued to maintain its gearing ratio (i.e. the Group's net borrowings over its shareholders' fund) at zero. Similarly, none of the Group's assets have been subject to charges or mortgages.

Same as in the past, the treasury activities of the Group remained to be centralized for higher efficiency, better control and more synergies. Funds for operations were usually placed in short-term deposits. Other funds not yet utilized were mostly invested in liquid financial instruments such as debt securities. For the first half year of 2003, total revenue generated from such deposits and financial instruments amounted to approximately HK\$101,982,000. As the bank deposits, investments in financial instruments, income and expenditure of the Group are mostly denominated in Hong Kong dollars or U.S. dollars, the Group has not been subject to any great risk in foreign exchange fluctuation exposure. Therefore, no hedging instruments have ever been applied by the Group to minimize such risk.

In view of the above strong financial and liquidity positions, it is evident that the Group will have sufficient resources to meet the needs of its operations and research and development requirements in the future.

### **Material acquisitions/disposals and significant investments**

During the period under review, the Group did not make any material acquisitions or disposals. As a biotechnology company, the Group has been investing significantly in research and development activities. For the first half of this year, the total amount for such investment amounted to about HK\$34,764,000.

### **Capital commitment and future plans for material investments or capital assets**

At the end of the first half year, the Group had capital commitments for about HK\$8,100,000 which was intended for the purchase of laboratory instrument, plant and equipment. The Group will continue to apply its financial resources to acquire the necessary laboratory instrument, equipment and plant for the expansion of its manufacturing and research and development facilities as stated under the "Use of Proceeds" in the prospectus of the Company dated 4 July 2002 ("the Prospectus").

**Information on employees**

At 30 June 2003, the Group had a total of 248 employees. The total staff costs, including the directors' emoluments and the staff costs which had been capitalized, amounted to a total of about HK\$57,312,000.

Salary of the Group's employees is kept at a competitive level with reference to the prevailing market conditions and normally reviewed annually on a performance related basis. The employees generally also enjoy a range of benefits such as a medical plan, a provident fund and a share option scheme. Details of the Group's share option scheme are shown under a separate heading "Details of Options Granted by the Company" in this announcement.

**Contingent liabilities**

The Group did not have any contingent liabilities for the period under review.

## COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress made in comparison with the business objectives as per the Prospectus of the Company for the period from 1 January 2003 to 30 June 2003.

<b>Business objectives as set out in the Prospectus</b>	<b>Actual Business Progress</b>
<b>Product Objectives</b>	
<b><i>Eco-agriculture -- Fertilizer</i></b>	
Begin sales in selected states of the United States, Indonesia, the Philippines, Taiwan and Vietnam	Sales activities have started in eight states in the United States, Indonesia and the Philippines. Negotiations are continuing in Taiwan and Vietnam.
Continue pre-sale trials in key markets in the rest of Asia and Europe	Pre-sale trials are underway in Korea, Japan and the Netherlands
Begin field trials on alternative formulations in Australia	Alternative formulations are being produced for trial in Australia, Canada and the United States
<b><i>Eco-agriculture -- Animal feed additives</i></b>	
Appoint Asian distributors	Negotiations have begun with potential distributors in Mainland China, Taiwan and Thailand
Start the regulatory approval process in Mainland China and Taiwan	Preparations are underway for submission to the regulatory authorities in Mainland China
<b><i>Bioremediation</i></b>	
Continue pre-sale trials in Australia, Canada, Hong Kong and the United States	Pre-sale trials are continuing in Australia, Canada and Hong Kong. Preparations are being made for trials in the United States
Begin negotiations with strategic partners in Australia, Canada, Hong Kong and the United States	Negotiations are underway with potential strategic partners in Australia, Canada and the United States
Explore simplified design of wastewater treatment systems	Trial data are being analysed to determine potential for simplifying design of waste water treatment systems

<b><i>Pharmaceuticals</i></b>	
<u>HIV</u> Submit applications for Phase I/II clinical trials in selected countries	Phase II studies are underway in Australia. Negotiations are underway in Hong Kong and the United States.
<u>Cancer</u> Continue product research and development	Continued product research and development in Hong Kong, Mainland China, the United States and Canada
<b><i>Nutraceuticals</i></b>	
Complete pre-sale trials and safety data analysis	Completed safety tests for launched products and continued product development studies
Complete negotiation with potential partner	Negotiations with three potential partners underway
Test market sales in Asia	Test marketed product in Hong Kong
<b><i>Dermatologicals</i></b>	
Continue research and development	Continued research and development
Begin pre-sale trials	Preparations for trial continued
Preparation for marketing, including packaging and positioning development, market surveys	Market surveys underway
Commence discussions with potential distributors	Identification of potential distributors in progress
<b>Production Facilities and Human Resources</b>	
Begin negotiations with local manufacturing partners	Negotiations with several partners for local manufacturing underway in Australia
Trial production of nutraceuticals, animal feed additives and WonderTreat™	Trial production of nutraceuticals, animal feed additives and WonderTreat™ began

## USE OF PROCEEDS

In the first half of year 2003, approximately HK\$77 million was spent by the Group on the business expansion and research and development activities. Details of the expenditure are as follows:

- Research and development
  - Approximately HK\$16 million for core research and development activities
  - Approximately HK\$12 million for clinical trials on pharmaceuticals
  - Approximately HK\$2 million for patent applications
- Approximately HK\$8 million for expansion of manufacturing and research and development facilities
- Approximately HK\$39 million for market development, brand building, sales and marketing

The above actual application of the proceeds from IPO was in line with the business objectives as stated under the section “Statement of Business Objectives and Strategies” in the Prospectus of the Company; however, there were some variances on the actual amount spent as compared to those projected under the section “Use of Proceeds” of the Prospectus due to the following reasons:

- reschedule of the development plan for manufacturing and research and development facilities to suit the market conditions
- adoption of effective and efficient cost control measures
- timing difference in the fund application

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	6,726	298	12,021	432
Cost of sales		<u>(3,847)</u>	<u>(228)</u>	<u>(7,729)</u>	<u>(332)</u>
Gross profit		2,879	70	4,292	100
Other revenue	3	50,212	76	102,199	79
Staff cost	4	(22,222)	(15,159)	(48,306)	(28,895)
Depreciation		(4,909)	(4,235)	(9,938)	(7,186)
Amortization of intangible assets		(699)	(158)	(1,389)	(316)
Operating expenses		<u>(25,104)</u>	<u>(7,865)</u>	<u>(46,498)</u>	<u>(13,199)</u>
Profit/(Loss) from operations		157	(27,271)	360	(49,417)
Share of results of an associate		<u>53</u>	<u>-</u>	<u>38</u>	<u>-</u>
Profit/(Loss) before taxation		210	(27,271)	398	(49,417)
Taxation	5	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit/(Loss) after taxation		210	(27,271)	398	(49,417)
Minority interests		<u>41</u>	<u>49</u>	<u>80</u>	<u>49</u>
Profit/(Loss) attributable to shareholders		<u>251</u>	<u>(27,222)</u>	<u>478</u>	<u>(49,368)</u>
Earnings/(Loss) per share	7				
- basic (Hong Kong cents)		<u>0.0039</u>	<u>(0.5338)</u>	<u>0.0075</u>	<u>(0.9680)</u>
- diluted (Hong Kong cents)		<u>0.0039</u>	<u>N/A</u>	<u>0.0075</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2003 (unaudited) HK\$'000	As at 31 December 2002 (audited) HK\$'000
	Notes		
<b>Non-current assets</b>			
Fixed assets	8	182,942	186,819
Intangible assets	9	79,816	64,708
Investments in an associate		9,250	-
Investments in securities		1,982,909	1,949,880
Other investments		254,602	268,316
		2,509,519	2,469,723
<b>Current assets</b>			
Inventories		8,140	3,109
Other investments		26,962	26,208
Receivables and prepayments	10	81,954	49,596
Bank balances and cash		256,251	270,721
		373,307	349,634
<b>Current liabilities</b>			
Payables and accruals	10	(42,198)	(24,922)
		(42,198)	(24,922)
<b>Net current assets</b>		331,109	324,712
<b>Total assets less current liabilities</b>		2,840,628	2,794,435
<b>Minority interests</b>		(271)	(351)
<b>Total net assets</b>		2,840,357	2,794,084
<b>Capital and reserves</b>			
Share capital	11	640,700	640,700
Share premium and reserves	12	2,199,657	2,153,384
<b>Total shareholders' equity</b>		2,840,357	2,794,084

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>(unaudited)</b> <b>2003</b>	<b>(unaudited)</b> <b>2002</b>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Total shareholders' funds/(deficits) at 1 January	2,794,084	(195,425)
Net gain not recognized in the income statement		
- Arising from capitalization of loan due to immediate holding company	-	522,158
- Realized on disposal of investments in securities	(9,238)	-
- Surplus on revaluation of investments in securities	54,892	-
- Exchange difference on translation of financial statements of overseas operations	141	-
Profit/(loss) for the period	478	(49,368)
<b>Total shareholders' funds at 30 June</b>	<b><u>2,840,357</u></b>	<b><u>277,365</u></b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>(unaudited)</b> <b>2003</b>	<b>(unaudited)</b> <b>2002</b>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Net cash used in operating activities	(79,925)	(52,258)
Net cash inflow/(outflow) from investing activities	65,455	(33,761)
Net cash inflow from financing	-	101,612
Increase/(decrease) in cash and cash equivalents	(14,470)	15,593
Cash and cash equivalents at beginning of the period	270,721	6,456
Cash and cash equivalents at end of the period	<b><u>256,251</u></b>	<b><u>22,049</u></b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2002, except for the changes due to adoption of the new and revised SSAPs which have become effective since 1 January 2003. The adoption of these new and revised SSAPs has no material impact on the Group’s results and net assets.

The Group reorganized its structure in 2002 for listing of the Company’s shares on the GEM of the Stock Exchange. In accordance with the SSAP 27 “Accounting for Group Reconstructions”, the results of the Group for the year 2002 have been prepared on the merger accounting basis as if the current structure of the Group had been in existence throughout the year.

### 2. Turnover and segment information

Turnover represents the net amount received and receivable from sales of eco-agriculture products---fertilizers and nutraceutical products.

An analysis of the business segment results is as follows:

	Eco-agriculture		Nutraceuticals		Consolidated	
	For the six months ended					
	2003	2002	2003	2002	2003	2002
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Turnover	<u>10,766</u>	<u>432</u>	<u>1,255</u>	<u>-</u>	<u>12,021</u>	<u>432</u>
Segment results	<u>(7,093)</u>	<u>(4,472)</u>	<u>(7,315)</u>	<u>-</u>	<u>(14,408)</u>	<u>(4,472)</u>
Business development, research and development expenditure and corporate expenses					<u>(87,431)</u>	<u>(45,024)</u>
Other revenue					<u>102,199</u>	<u>79</u>
Profit/(loss) from operation					<u>360</u>	<u>(49,417)</u>
Share of results of an associate					<u>38</u>	<u>-</u>
Profit/(loss) before taxation					<u>398</u>	<u>(49,417)</u>
Taxation					<u>-</u>	<u>-</u>
Profit/(loss) after taxation					<u>398</u>	<u>(49,417)</u>
Minority interest					<u>80</u>	<u>49</u>
Profit/(loss) attributable to shareholders					<u>478</u>	<u>(49,368)</u>

### 3. Other revenue

Other revenue comprises mainly of income from bank deposits and investments in financial instruments.

### 4. Staff cost

Staff costs which include salaries, bonuses, retirement benefit scheme contribution and recruitment costs for the three months and six months ended 30 June 2003 respectively amounted to HK\$28,104,000 (2002: HK\$18,726,000) and HK\$57,312,000 (2002: HK\$36,157,000) of which HK\$5,882,000 (2002: HK\$3,567,000) and HK\$9,006,000 (2002: HK\$7,262,000) relating to development activities were capitalized.

### 5. Taxation

No provision for Hong Kong Profits Tax was made as there was no assessable profit for the three months and the six months respectively ended 30 June 2003 as well as the corresponding last periods.

A deferred tax asset has not been recognized in the aforesaid periods in respect of tax losses available to offset future profits as there is no immediate plan to utilize the tax losses in the foreseeable future.

### 6. Dividend

The Board of Directors of the Company has not declared an interim dividend for the six months ended 30 June 2003 (2002: Nil).

### 7. Earnings/(loss) per share

The calculations of the basic and diluted earnings/(loss) per share are based on the following data:

	For the three months ended 30 June		For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Profit/(loss) for the period</b>				
Profit/(loss) for calculating basic and diluted earnings/(loss) per share	<u>251</u>	<u>(27,222)</u>	<u>478</u>	<u>(49,368)</u>
<b>Number of shares</b>				
Weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share	6,407,000,000	5,100,000,000	6,407,000,000	5,100,000,000
Effect of dilutive potential ordinary shares	523,561	N/A	533,890	N/A
Weighted average number of ordinary shares used in the calculation of diluted earnings/(loss) per share	<u>6,407,523,561</u>	<u>N/A</u>	<u>6,407,533,890</u>	<u>N/A</u>

No diluted loss per share is presented for the three months and six months ended 30 June 2002 as there were no dilutive potential ordinary shares outstanding during those periods.

## 8. Fixed assets

	<b>Leasehold land and building</b>	<b>Laboratory instruments, plant and equipment</b>	<b>Furniture, fixtures and other assets</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation				
At 1 January 2003	115,000	62,701	36,460	214,161
Additions	-	6,066	1,884	7,950
<b>At 30 June 2003</b>	<b>115,000</b>	<b>68,767</b>	<b>38,344</b>	<b>222,111</b>
Accumulated depreciation				
At 1 January 2003	-	15,227	12,115	27,342
Provided for the period	1,292	6,677	3,858	11,827
<b>At 30 June 2003</b>	<b>1,292</b>	<b>21,904</b>	<b>15,973</b>	<b>39,169</b>
Net book value				
<b>At 30 June 2003</b>	<b>113,708</b>	<b>46,863</b>	<b>22,371</b>	<b>182,942</b>
At 31 December 2002	115,000	47,474	24,345	186,819

## 9. Intangible assets

	<b>Development costs</b>	<b>Patents</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1 January 2003	58,757	6,689	65,446
Additions	15,508	989	16,497
<b>At 30 June 2003</b>	<b>74,265</b>	<b>7,678</b>	<b>81,943</b>
Amortization			
At 1 January 2003	595	143	738
Provided for the period	1,224	165	1,389
<b>At 30 June 2003</b>	<b>1,819</b>	<b>308</b>	<b>2,127</b>
Net book value			
<b>At 30 June 2003</b>	<b>72,446</b>	<b>7,370</b>	<b>79,816</b>
At 31 December 2002	58,162	6,546	64,708

## 10. Receivables and payables

The Group has a policy of allowing an average credit period of 90 days to its customers. Aging analyses of trade debtors and trade creditors are as follows:

	As at 30 June 2003	As at 31 December 2002
	HK\$'000	HK\$'000
<u>Trade debtors</u>		
0 - 90 days	2,315	2,150
>90 days	880	-
	3,195	2,150
<u>Trade creditors</u>		
0 - 90 days	3,778	2,687
>90 days	-	-
	3,778	2,687

## 11. Share capital

	Number of shares of HK\$ 0.10 each	Nominal value HK\$'000
<u>Authorized</u>		
At 31 December 2002 and 30 June 2003	15,000,000,000	1,500,000
<u>Issued and fully paid</u>		
At 31 December 2002 and 30 June 2003	6,407,000,000	640,700

## 12. Share premium and reserves

	Share premium	Investment revaluation reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>2003</u>					
At 1 January 2003	2,391,662	46,042	-	(284,320)	2,153,384
Realized on disposal of investments in securities	-	(9,238)	-	-	(9,238)
Surplus on revaluation of investments in securities	-	54,892	-	-	54,892
Exchange difference on translation of financial statements of overseas operations	-	-	141	-	141
Profits for the period	-	-	-	478	478
<b>At 30 June 2003</b>	<b>2,391,662</b>	<b>91,696</b>	<b>141</b>	<b>(283,842)</b>	<b>2,199,657</b>

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) Long positions in the shares of the Company

Name of Director	Capacity	Number of Ordinary Shares				Total	Percentage of Shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests		
Li Tzar Kuoi, Victor	Beneficial owner & beneficiary of trusts	1,500,000	-	-	2,820,008,571 (Note 1)	2,821,508,571	44.04%
Kam Hing Lam	Interest of child or spouse	-	4,150,000	-	-	4,150,000	0.06%
Ip Tak Chuen, Edmond	Beneficial owner	1,500,000	-	-	-	1,500,000	0.02%
Yu Ying Choi, Alan Abel	Beneficial owner	1,500,000	-	-	-	1,500,000	0.02%
Pang Shiu Fun	Beneficial owner	1,500,000	-	-	-	1,500,000	0.02%
Chu Kee Hung	Beneficial owner	1,500,000	-	-	-	1,500,000	0.02%
Lam Hing Chau, Leon	Beneficial owner	1,250,000	-	-	-	1,250,000	0.02%
Kwan Chiu Yin, Robert	Interest of a controlled corporation	-	-	500,000 (Note 2)	-	500,000	0.01%
Peter Peace Tulloch	Beneficial owner	700,000	-	-	-	700,000	0.01%
Wong Yue-chim, Richard	Beneficial owner	250,000	-	-	-	250,000	≈ 0%
Kwok Eva Lee	Beneficial owner	200,000	-	-	-	200,000	≈ 0%

Notes:

- Such 2,820,008,571 shares are held by a subsidiary of Cheung Kong (Holdings) Limited (“Cheung Kong Holdings”). Li Ka-Shing Unity Trustee Company Limited (“TUT”) as trustee of The Li Ka-Shing Unity Trust (the “LKS Unity Trust”) and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust hold all issued and outstanding units in the LKS Unity Trust but are not entitled to any interest or share in any particular property comprising the trust assets of the LKS Unity Trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Mr. Li Tzar Kuoi, Victor, as a discretionary beneficiary of such discretionary trusts and a Director of the Company, is taken to be interested in those shares of Cheung Kong Holdings and thus is taken to be interested in those 2,820,008,571 shares held by the subsidiary of Cheung Kong Holdings under the SFO.

2. Such shares are held by a company wholly-owned by Mr. Kwan Chiu Yin, Robert.

## (2) Long positions in the underlying shares of the Company

Pursuant to the share option scheme adopted by the Company on 26 June 2002 (the “Share Option Scheme”), certain Directors in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 30 June 2003 were as follows:

Name of Director	Date of grant	Number of share options					Outstanding as at 30 June 2003	Option period	Subscription price per share HK\$
		Outstanding as at 1 January 2003	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Outstanding as at 30 June 2003			
Yu Ying Choi, Alan Abel	30/9/2002	310,000	-	-	-	310,000	30/9/2003 - 29/9/2012	1.598	
	27/1/2003	-	690,000	-	-	690,000	27/1/2004 - 26/1/2013	1.446	
Pang Shiu Fun	30/9/2002	310,000	-	-	-	310,000	30/9/2003 - 29/9/2012	1.598	
	27/1/2003	-	690,000	-	-	690,000	27/1/2004 - 26/1/2013	1.446	
Chu Kee Hung	30/9/2002	310,000	-	-	-	310,000	30/9/2003 - 29/9/2012	1.598	
	27/1/2003	-	690,000	-	-	690,000	27/1/2004 - 26/1/2013	1.446	
Lam Hing Chau, Leon	30/9/2002	222,000	-	-	-	222,000	30/9/2003 - 29/9/2012	1.598	
	27/1/2003	-	480,000	-	-	480,000	27/1/2004 - 26/1/2013	1.446	

Save as disclosed above, during the six months ended 30 June 2003, none of the Directors or their respective associates was granted share options to subscribe for shares of the Company, nor had exercised such rights.

## Aggregate long positions in the shares and underlying shares of the Company

Name of Director	Aggregate number in shares	Aggregate number in underlying shares	Total
Li Tzar Kuoi, Victor	2,821,508,571	-	2,821,508,571
Kam Hing Lam	4,150,000	-	4,150,000
Ip Tak Chuen, Edmond	1,500,000	-	1,500,000
Yu Ying Choi, Alan Abel	1,500,000	1,000,000	2,500,000
Pang Shiu Fun	1,500,000	1,000,000	2,500,000
Chu Kee Hung	1,500,000	1,000,000	2,500,000
Lam Hing Chau, Leon	1,250,000	702,000	1,952,000
Kwan Chiu Yin, Robert	500,000	-	500,000
Peter Peace Tulloch	700,000	-	700,000
Wong Yue-chim, Richard	250,000	-	250,000
Kwok Eva Lee	200,000	-	200,000

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30 June 2003, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

## DETAILS OF OPTIONS GRANTED BY THE COMPANY

The Company has adopted the Share Option Scheme under which the Directors or employees of the Company or its subsidiaries or certain other persons may be granted share options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at 30 June 2003, options to subscribe for an aggregate of 13,472,000 shares of the Company granted to certain continuous contract employees (including the Executive Directors of the Company as disclosed above and the management shareholder as disclosed below) pursuant to the Share Option Scheme were outstanding, details of which were as follows:

Date of grant	Number of share options					Outstanding as at 30 June 2003	Option period	Subscription price per share HK\$
	Outstanding as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
30/9/2002	4,186,000	-	-	112,000	-	4,074,000	30/9/2003 - 29/9/2012 (Note 1)	1.598
27/1/2003	-	9,628,000	-	230,000	-	9,398,000	27/1/2004 - 26/1/2013 (Note 2)	1.446 (Note 3)

Details of the share options granted to Mr. Cheung Ling Yuk, Larry, a management shareholder of the Company, pursuant to the Share Option Scheme as at 30 June 2003 were as follows:

Date of grant	Number of share options					Outstanding as at 30 June 2003	Option period	Subscription price per share HK\$
	Outstanding as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
30/9/2002	316,000	-	-	-	-	316,000	30/9/2003 - 29/9/2012 (Note 1)	1.598
27/1/2003	-	580,000	-	-	-	580,000	27/1/2004 - 26/1/2013 (Note 2)	1.446 (Note 3)

Notes:

1. The options are exercisable from 30 September 2003 to 29 September 2012 (both days inclusive) subject to the following vesting period:
  - (i) up to 35% of the options commencing on 30 September 2003;
  - (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 30 September 2004; and
  - (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 30 September 2005.
2. The options are exercisable from 27 January 2004 to 26 January 2013 (both days inclusive) subject to the following vesting period:
  - (i) up to 35% of the options commencing on 27 January 2004;
  - (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 27 January 2005; and
  - (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 27 January 2006.
3. The closing price of the shares of the Company immediately before the date on which the options were granted is HK\$1.43.

The Directors are of the view that the calculation of the value of share options granted by the Company during the period depends on a number of variables, which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. As such, the value of share options is not presented in this announcement.

#### **INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO**

So far as is known to any Director or chief executive of the Company, as at 30 June 2003, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

**(1) Long positions of substantial shareholders in the shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of Ordinary Shares</b>	<b>Percentage of shareholding</b>
Gold Rainbow Int'l Limited	Beneficial owner	2,820,008,571	44.01%
Gotak Limited	Interest of a controlled corporation	2,820,008,571 (Note i)	44.01%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	2,820,008,571 (Note ii)	44.01%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	2,820,008,571 (Note iii)	44.01%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	2,820,008,571 (Note iii)	44.01%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	2,820,008,571 (Note iii)	44.01%
Trueway International Limited	Beneficial owner	1,410,004,286	22.01%
Tangiers Enterprises Limited	Interest of controlled corporations	1,880,005,715 (Note iv)	29.34%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	4,700,014,286 (Note v)	73.36%

**(2) Long positions of other persons in the shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of Ordinary Shares</b>	<b>Percentage of shareholding</b>
Triluck Assets Limited	Beneficial owner	470,001,429	7.34%
Cheung Ling Yuk, Larry	Beneficial owner	401,585,714 (Note vi)	6.27%

Notes:

- i. This represents the same block of shares in the Company as shown against the name of Gold Rainbow Int'l Limited ("Gold Rainbow") above. Since Gold Rainbow is wholly-owned by Gotak Limited, Gotak Limited is deemed to be interested in the same number of shares in which Gold Rainbow was interested under the SFO.
- ii. As Gotak Limited is wholly-owned by Cheung Kong Holdings, Cheung Kong Holdings is deemed to be interested in the same number of shares which Gotak Limited is deemed to be interested under the SFO.
- iii. TUT as trustee of the LKS Unity Trust and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust and TDT2 as trustee of another discretionary trust hold all issued and outstanding units in the LKS Unity Trust but are not entitled to any interest or share in any particular property comprising the trust assets of the LKS Unity Trust. Under the SFO, each of TUT as trustee of the LKS Unity Trust, TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust and TDT2 as trustee of another discretionary trust is deemed to be interested in the same block of shares as Cheung Kong Holdings is deemed to be interested as disclosed in Note ii above.
- iv. Trueway International Limited ("Trueway") and Triluck Assets Limited ("Triluck") are wholly-owned by Tangiers Enterprises Limited ("Tangiers") and Tangiers is deemed to be interested in a total of 1,880,005,715 shares under the SFO, being the aggregate of the shares in which Trueway and Triluck were interested as shown against the names Trueway and Triluck above.
- v. This represents the aggregate of the blocks of shares in the Company in which Tangiers and Cheung Kong Holdings are respectively deemed to be interested under the SFO. As Mr. Li Ka-shing owns the entire issued share capital of Tangiers and one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited which in turn holds the entire issued share capital of TUT, TDT1 and TDT2, under the SFO, Mr. Li Ka-shing is deemed to be interested in the same number of shares in which both Tangiers and Cheung Kong Holdings are deemed to be interested as mentioned above.
- vi. The interests of Mr. Cheung Ling Yuk, Larry in the share options granted by the Company are separately disclosed under the section headed "Details of Options Granted by the Company". His aggregate long position in the shares and underlying shares of the Company is 402,481,714 shares.

Save as disclosed above, as at 30 June 2003, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## COMPETING INTERESTS

During the six months ended 30 June 2003, the interests of Directors, management shareholders of the Company or their respective associates as defined in the GEM Listing Rules (the “Associates”) in the businesses which compete or may compete, either directly or indirectly, with the businesses of the Group were as follows:

<b>Name of Director</b>	<b>Name of Company</b>	<b>Nature of Interest</b>
Li Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman (Note)
	Hutchison Whampoa Limited	Deputy Chairman (Note)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director (Note)
	Hutchison Whampoa Limited	Executive Director (Note)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Executive Director
<b>Name of Management Shareholder</b>	<b>Name of Company</b>	<b>Nature of Interest</b>
Li Ka-shing	Cheung Kong (Holdings) Limited	Chairman (Note)
	Hutchison Whampoa Limited	Chairman (Note)

Note: Apart from holding of the directorship in each of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Kam Hing Lam and/or their respective family members have direct and/or indirect interests in the shares of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited.

Both Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited engage in a wide range of businesses and investments which include, inter alia, health care, dietary supplement businesses and/or research, development, manufacture, marketing and/or sale of pharmaceutical and nutraceutical products through their subsidiaries, associated companies or by way of other forms of investments. The disclosure herein above is made on the basis that there might be a chance that such businesses might have competed, either directly or indirectly, with those of the Group under Rule 11.04 of the GEM Listing Rules.

Save as disclosed above, none of the Directors, the management shareholders of the Company or their respective Associates have any interests in a business which competes or may compete with the business of the Group.

## **SPONSOR'S INTERESTS**

Pursuant to a sponsor's agreement dated 3 July 2002 between the Company and Citigroup Global Markets Asia Limited ("Citigroup"), Citigroup has been appointed as a sponsor to the Company as required under the GEM Listing Rules at a fee from 16 July 2002 to 31 December 2004.

As notified to the Company by Citigroup, as at 30 June 2003, neither Citigroup, its directors, employees nor their associates had any interests in any securities of the Company or any of its associated corporations.

## **BOARD PRACTICES AND PROCEDURES**

During the six months ended 30 June 2003, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, except that the Non-executive Directors of the Company are not appointed for specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 26 June 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two Independent Non-executive Directors of the Company, namely Professor Wong Yue-chim, Richard who is the Chairman of such committee, and Mrs. Kwok Eva Lee.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company.

The audit committee has already reviewed the Group's unaudited results for the six months ended 30 June 2003.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and on the website of the Company at [www.ck-lifesciences.com](http://www.ck-lifesciences.com).*