維奥生物科技控股有限公司

Vital BioTech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005

HIGHLIGHTS

	(unaudited) 6 months to 2005 HK$'000	2004 HK$'000
Turnover	**190,516**	149,328
Profits attributable to equity holders of the Company	**26,731**	26,667
Basic earnings per share	**HK1.74 cent**	HK1.85 cent
Interim dividend per share:		
1st quarter dividend paid on 8 June 2005	**HK0.5 cent**	–
This 2nd quarter dividend	**HK0.5 cent**	HK0.5 cent
Total dividends for 2 quarters	**HK1 cent**	HK0.5 cent

- Turnover of the Group was about HK$190 million, a growth of 27.6%;
- Profits attributable to equity holders of the Company remained stable year-on-year at about HK$26.7 million;
- Basic earnings per share was HK$1.74 cent;
- The Board recommended an interim dividend of HK0.5 cent per share for the 2nd quarter. Together with the interim divided of HK0.5 cent per share paid for the 1st quarter, total dividends per share for two quarters were HK1 cent.

BUSINESS REVIEW

Results

I am pleased to announce the unaudited results of the Group for the 6 months ended 30 June 2005. During the period under review, the consolidated sales turnover of the Group grew by 27.6% year-on-year to approximately HK$190.5 million (2004: HK$149.3 million). In the last corresponding period, the Group had sales of technology of about HK$5.6 million recorded as sales turnover. In this period, we did not record sales of technology of any kind. By excluding that item, the actual growth from sales of pharmaceutical products was about 32.5% on a year-on-year basis.

The profits attributable to equity holders of the Company were maintained at around HK$26.7 million and were close to that of the last period. The Group has sold its office premises in Hong Kong and has recorded a profit of about HK$5 million which was classified under other revenues in this period. Despite an increase of sales turnover by 27.6%, the Group has spent more to intensify its selling activities. The selling and distribution expenses have increased by 56% year-on-year to HK$73.7 million and this affected the net profit performance.

Interim Dividend

The Board has recommended an interim dividend per share of HK0.5 cent for the 2nd quarter and together with the HK0.5 cent interim dividend paid for the first quarter; the total interim dividends per share for the first half year is HK1 cent. The interim dividends represented a total amount of approximately HK$15.4 million, in which approximately HK$7.7 million of the 1st quarter dividend was paid on 8 June 2005 by cash.

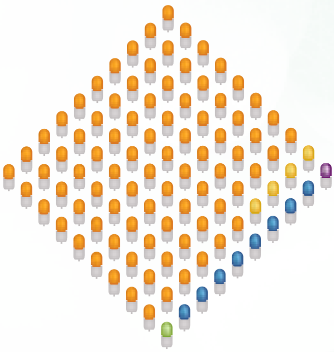
Product Sales

Our flagship product "Osteoform" has maintained a steady sales growth. Its sales turnover reached approximately HK$171 million which represented a growth rate of 28% year-on-year when compared to HK$133 million for the last corresponding period. Osteoform has contributed about 90% of the Group's sales turnover, which is similar to that of the last corresponding period.

In the 2nd half year of 2004, the new 60 capsule presentation of Osteoform contributed a sales turnover of about HK$7.1 million. For the 1st half year of 2005, the new presentation has generated a turnover of around HK$7.7 million, an increase of 8% year-on-year.

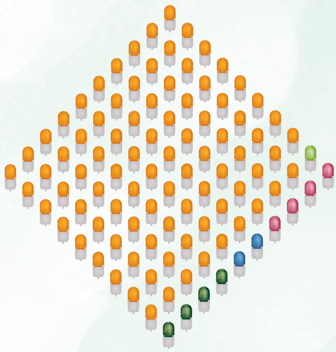
TURNOVER BY PRODUCT RATIO

For the six months of 2005



86% Osteoform 30's
4% Osteoform 60's
1% Depile
8% Agiolax
1% Other Products
0% Other Income

For the six months of 2004



89% Osteoform 30's
1% Depile
0% Fenofibrate
4% Reparil gel N
2% Agiolax
0% Allergen Vaccine
4% Intellectual Property
0% Other Income

"Depile Capsule", an oral herbal drug that relieves symptoms of Haemorrhoids

The product was launched in early 2004 and sold HK$3 million last year. In 2005, the product has been admitted to the National Basic Medical Insurance and Workman Compensation Insurance Pharmaceutical List (國家基本醫療保險和工傷保險藥品目錄). The 24 capsule presentation had a sales turnover of HK$1.8 million in this period. In the 2nd quarter, 2,000 boxes of a new 12 capsule presentation were sold for market trial purpose. A smaller package size and a lower price will give the end-user another buying option.

Other New Products

Several new products were launched last year:

"Fenofibrate Tablet", a drug that regulates blood lipid level, "Aceclofenac Tablet", a drug that relieves soft tissue pain and inflammation; and 2 antibiotic products, namely Clarithromycin Capsule and Azithromycin Capsule. These products were mainly launched in the 3rd and 4th quarter of 2004. For this 6 month period, sales of these products reached about HK$1.7 million whereas last years sales of these products totaled HK$1 million.

Overseas Agency Products

The Group packages and distributes 2 products of Madaus AG of Germany, namely "Reparil Gel N" and "Agiolax Granules". For this period, we did not import the finished goods of Reparil Gel N for distribution. In February 2005, we imported the bulk raw materials of Reparil Gel N for local packaging preparation and in June 2005 the packaging permit was released. We expect to package and distribute the product in the 2nd half of 2005. For this period, Agiolax Granules had a sales turnover of HK$15 million. When compared to the 9 month sales of HK$9 million following the product launch in the 2nd quarter of last year, the growth of sales was about 66% which was still below our sales expectation. In the 2nd half of the year, the Group may enter into contracts for 3 more products of Madaus AG, namely Legalon Capsule and Tablet, Uralyt-U Granule and Spasmo-lyt Tablet.

Selling and Distribution Expenses

Selling expenses for this period reached HK$73.7 million. 47% of the expenses were spent directly on advertising and promotions and in which approximately one-third was spent on new products. The total expenses increased by 56% when compared to HK$47.2 million year-on-year. Whereas when compared to that of HK$87.5 million in the 2nd half of last year, there was a decrease of approximately 16%.

In terms of selling expenses to sales turnover ratio, the ratio was 38.7% for this period. The ratios for the last corresponding period, 2nd half of last year and the last full year were 31.5%, 45% and 39.2% respectively. The Group is quite concerned about promoting the products and, on the other hand, monitoring cautiously the selling expenses.

Re-position of the Marketing Division

Before 2002, Osteoform, the Group's flagship product was classified as prescription drug. Its selling and distribution channel was mainly through hospital networks which had accounted for over 80% of the Group's turnover. Commencing 2003, an OTC registration was granted to Osteoform. The Group began to construct an OTC marketing force to penetrate the OTC markets. The Group's sales turnover increased every year. The marketing force and the normal promotional expenses increased every year as well. The major distribution channel of the product has been shifted to OTC after those years of hard efforts.

In 2005, the Group believes that our OTC sales channel has been well established and the marketing division is fulfilling their missions. OTC sales has accounted for over 80% of the Group's turnover. The management recognizes that our marketing strategies have to be flexible. Commencing 2005, the Group has shifted most of the detailed promotional responsibility to our local sales agents and has retained only the most important area of brand image promotion and media advertising under our control. As part of the new policy, the Group has re-structured its marketing force. In the process, some of the redundant marketing staff was either off-loaded to its business associates or dismissed. The number of marketing staff has dropped from 883 for last year to the existing size of 4. For this reason, the Group has paid more than HK$4 million compensation to the laid off staff.

"Opin" an interferon suppository for the treatment of chronic viral cervicitis and vaginitis

The production of the Opin was suspended in late 2003. In July 2005, the product was re-launched into the market. Opin is a biological drug. Product storage and shelf life can be severely affected by un-checked high room temperature. The product has gone through a series of stringent stability tests since late 2004. In April 2005, the stability tests were completed. With the production of Opin back on line in June 2005, the product was re-launched back into the market in July.

四川維奧三江制藥有限公司 (Sichuan Vital San Jiang Pharmaceuticals Co Ltd)

The Group holds a 60% equity interest in this company. The purpose of this investment is to establish a GMP compliant plant for injection products. We target to complete the plant construction by late 2005. The investment budget is revised from RMB40 million last year to RMB50 million. This company has several products either registered or in the process of registration. In June 2005, the Group entered into agreements to acquire the remaining equity interests from the 2 minority shareholders at a total consideration of approximately HK$6.8 million. The transactions are expected to complete in the 3rd quarter of 2005.

BUSINESS OUTLOOK

The Group understands the inherent business risk from over reliance on our single flagship product Osteoform. We have launched several new products since 2004. The market development of these new products has to be slow and cautious. Promising results are expected to build up gradually in the coming years. In 2004, the Group has been aggressive to launch more advertising and promotional activities which were funded by the placement proceeds received in early 2004. Although sales turnover has grown, the net profits have been reduced. The envisaged significant breakthroughs did not crystallize within the short period of time. In 2005, the management has repositioned the Group's marketing strategy. The marketing department will only focus on the overall marketing directions and therefore most of the staff becomes redundant. Through implementing several carefully planned incentive schemes, the Group wishes on the one hand to maintain a high growth rate of sales and on the other hand to reduce selling expenses. This will ultimately achieve a higher net profit margin.

Project Vaccines Improvement (Non-injection Delivery Project):

Vitapharm Research Pty Limited ("Vitapharm") is cooperating with a renowned international pharmaceutical company for the improvement of oral vaccines. The first generation of improved vaccines has been developed. Initial laboratory test results are promising. The improved vaccine samples were delivered to the United States for the arrangement of clinical pilot study. Results are anticipated in the first quarter of 2006. Meanwhile, Vitapharm is discussing further on vaccine formulation development with that pharmaceutical company.

New Products launched in 2004:

"Fenofibrate Tablet" and "Aceclofenac Tablet" are both prescription drugs which have been admitted to the Basic Medical Insurance and Workman Compensation Insurance Pharmaceutical List (基本醫療保險和工傷保險藥品目錄) of several provinces and cities in China. Their promotion channels are mainly through the hospital networks and their sales are expected to increase gradually.

"Clarithromycin Capsule" and "Azithromycin Capsule" are both antibiotics products. Their sales growths are quite steady. Although there are a lot of similar generic products in the market and price competitions are very tough, we have maintained an edge over pricing because our ex factory costs are low. We absolutely expect that a larger market share will bring a higher contribution to the Group.

New Products in the pipeline

"**AOTINGPING**" (**Miglitol Tablet**) has been admitted to the Basic Medical Insurance and Workman Compensation Insurance Pharmaceutical List (基本醫療保險和工傷保險藥品目錄) of Sichuan Province. The Group has commenced promoting this product in cities of Guangzhou, Nanjing, Sichuan and Chongqing. We have participated in certain important conferences e.g., National Diabetes Cases and China Endocrinology Meeting. In Beijing City hospitals, the product is at the final stage of clinical observations. We plan to launch the product nationwide in the 2nd half of 2005.

"**Vitalfast**" is a slow release flu medication formulated with loratadine, pseudoephedrine sulphate and paracetamol which was a drug acquired by the Group last year. The product has passed the clinical trials in October 2004 and China SFDA is processing our application for production permit. We expect to receive the new drug certificate and production permit in late 2005 and launch the product in 2006.

FINANCIAL REVIEW

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND CURRENCY POLICY

As of 30 June 2005, the Company has in issue about 1.54 billion ordinary shares. According to an agreement entered in September 2003, the Group has issued in the period 20.5 million new shares at a predetermined consideration of HK$0.46 per share to settle the final installment payment of the 15% equity interest acquired by the Group in Vital Pharmaceuticals (Sichuan) Co. Ltd.

As of 30 June 2005, market capitalization of the Company was approximately HK$390 million (31 December 2004: approximately HK$426 million).

As of 30 June 2005, the Group had bank loans of approximately HK$170 million (31 December 2004: approximately HK$123 million), comprising long-term portion of HK$6 million (31 December 2004: HK$7 million) and short-term portion of HK$164 million (31 December 2004: HK$116 million). Cash on hand amounted to approximately HK$82 million (31 December 2004: HK$110 million).

At present, the Group has obtained total banking facilities of approximately HK$170 million from banks in HK, Macau and China. Banking facilities are fully utilised. The cost of financing was around 4% per annum.

The sales receipts of the Group were denominated as to 89% in RMB, 8% in HKD, and 3% in other currency. Purchases were denominated as to 57% in USD, 4% in Euro, 5% in HKD and 34% in RMB. Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 43% in HK$, 55% in RMB and 2% in AUD. During the reporting period, the Group needed to settle the purchases in EURO and entered into forward contracts to hedge against foreign currency fluctuation. The Group will monitor closely the exchange rate fluctuation of USD against RMB and will take appropriation actions if necessary.

Key financial figures and ratios

During the reporting period, major P&L ratios remained stable. As compared to the 12 months in 2004, substantial improvements were shown in Net profit margin and EBITDA to Turnover ratios. The ratio of Selling and distribution expenses to Turnover still stayed at a relatively high level.

Profit and loss item:	**6 months ended 30 June**		12 months
	2005	2004	Year 2004
Turnover *(HK$' million)*	**190.5**	149.3	343.4
Gross profit margin	**70%**	71%	70%
Selling and distribution expenses *(HK$' million)*	**73.7**	47.2	134.8
Selling and distribution expenses/Turnover	**38.7%**	31.5%	39.2%
Gross profit margin after selling and distribution expenses	**31.5%**	42%	31%
Net profit margin	**14%**	18%	10%
EBITDA *(HK$' million)*	**44.3**	38.0	58.4
EBITDA/Turnover	**23.3%**	25.4%	17%

Balance sheet item:

At of 30 June 2005, gross debt equity ratio was close to 50%. The average trade receivable turnover day and Inventory (excluding goods in transit) average turnover day were longer than that at 31 December 2004. The working capital management needs improvement.

At of 30 June 2005, the Group has received from its customers certain bills of exchange endorsed by banks amounted in total to HK$26 million. If those bills of exchange were discounted to banks, the proceeds could be used to repay short term bank loans, lower the debt equity ratio by 7% or improve the cash positions.

The Group has modified the promotion and incentive schemes for Osteoform early this year. More sales turnover is expected and from January 2005 onwards, more raw materials of Osteoform are required from the US to cater for the expected increasing sales. We have increased the purchase from 3 containers of Twenty Foot Equivalent Unit (TEU) per month on average last year to 4 TEU containers per month on average this year. Therefore, the inventory average turnover day was 30 days longer for the period ended 30 June 2005. In June, the accumulated purchase orders have reached the 2005 minimum purchase commitment fixed by the US supplier. Therefore, an extra 8% discount was entitled which will in turn lower the purchase costs by 8% for the 2nd half year. To improve the inventory turnover day, the Group will monitor the sales performance and cautiously control the order quantity for the 2nd half year.

	As at 30 June 2005 *HK$ million*	As at 31 December 2004 *HK$ million*
Balance sheet item:		
Short-term bank loans	**164.4**	116.2
Long-term bank loans	**5.8**	6.6
Cash on hand	**81.7**	110.1
Bank loans net of cash on hand	**88.5**	12.7
Net tangible assets	**358.9**	334.2
Debt equity ratio (gross)	**47.4%**	36.7%
Debt equity ratio (net)	**24.7%**	3.8%
Average trade receivable turnover day	**108 days**	91 days
Average inventory turnover day	**146 days**	102 days

As of 30 June 2005, the Group had HK$30 million cash, HK$5.6 million securities investment and HK$25.4 million fixed assets pledged as collateral to banks.

PROPOSED DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors proposed to pay for the 2nd quarter of 2005 an interim dividend of HK0.5 cent per share to the shareholders whose names appear on the register of members on 16 September 2005. The interim dividend will be payable on 22 September 2005. The total amount of the interim dividend payable is approximately HK$7.7 million.

The Register of Members of the Company will be closed from 12 September 2005 to 16 September 2005, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the above-mentioned dividend, all transfers accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at 46 Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 9 September 2005 (Friday).

EMPLOYEE INFORMATION

As at 30 June 2005, the Group had 426 employees, comprising 19 in research and development, 255 in production, 4 in sales and distribution, and 148 in general administration and finance. 399 of these employees were located in China, 7 in Australia, 20 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. Total staff costs for the reporting period amounted to approximately HK$19 million, in which approximately HK$4 million was compensation payment to redundant staff.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTEREST IN SHARES OF LISTED CORPORATION

As at 30 June 2005, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Ordinary shares of HK$0.01 each in the Company

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities *(Note 1)*		Percentage shareholding in the same class of securities
Mr. Tao Lung ("Mr. Tao")	Company	Beneficial owner	110,891,648	(L)	7.19%
	Company	Interest of a controlled corporation *(Note 2)*	522,526,940	(L)	33.89%
	Perfect Develop Holding Inc. ("Perfect Develop")	Beneficial owner	4,900 ordinary shares of US$0.01 each	(L)	71.39%
Mr. Liu James Jin ("Mr. Liu")	Company	Beneficial owner	14,630,400	(L)	0.95%
Mr. Jin Wei	Company	Beneficial owner	11,160,000	(L)	0.72%
Mr. Shen Song Qing	Company	Beneficial owner	12,160,000	(L)	0.79%

Notes:

1. The letter "L" stands for the Director's long position in such securities.

2. The interest in the shares are held by Perfect Develop. The entire issued share capital of Perfect Develop is beneficially owned as to 17.48% by Mr. Liu and 71.39% by Mr. Tao. Accordingly, Mr. Tao is deemed to be interested in all the Shares which Perfect Develop is interested by virtue of the SFO.

INDEPENDENT REVIEW REPORT

HO & HO COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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To the board of directors of
Vital BioTech Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 13 to 27.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statements of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Company's management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2005.

Ho and Ho & Company
Certified Public Accountants

Hong Kong
19th August 2005

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005

	Notes	Six months ended 30 June 2005 HK$'000 (Unaudited)	2004 HK$'000 (Unaudited)
Revenue	3	**190,516**	149,328
Cost of sales		**(56,917)**	(43,881)
Gross profit		**133,599**	105,447
Other revenues		**8,503**	5,088
Selling and distribution expenses		**(73,662)**	(47,236)
Administrative expenses		**(36,164)**	(32,821)
Finance costs		**(4,794)**	(1,711)
Share of results of an associate		**(76)**	–
Profit before taxation	4	**27,406**	28,767
Taxation	5	**(1,152)**	(2,399)
Profit for the period		**26,254**	26,368
Attributable to:			
Equity holders of the Company		**26,731**	26,667
Minority interests		**(477)**	(299)
		26,254	26,368
Dividends:			
Interim dividend for the 1st quarter – paid	6	**HK0.5 cent**	–
Interim dividend for the 2nd quarter – proposed	6	**HK0.5 cent**	HK0.5 cent
		HK1 cent	HK0.5 cent
Earnings per share	7		
Basic		**HK1.74 cent**	HK1.85 cent
Diluted		**HK1.74 cent**	HK1.83 cent

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	Notes	30/6/2005 HK$'000 (Unaudited)	31/12/2004 HK$'000 (Audited) (Restated)
Non-current assets			
Intangible assets		**42,841**	39,176
Fixed assets	8	**194,827**	193,684
Prepaid lease payments on land use rights		**27,569**	21,444
Interest in an associate		**566**	642
Investment securities	9	**21,488**	21,441
		287,291	276,387
Current assets			
Inventories		**60,405**	43,223
Receivables and prepayments	10	**200,676**	143,623
Prepaid lease payments on land use rights		**517**	391
Valued added tax receivable		**64**	3,348
Bank balances and cash			
– pledged		**29,953**	17,876
– unpledged		**51,757**	92,229
		343,372	300,690
Current liabilities			
Trade and other payables	11	**44,102**	58,277
Value added tax payable		**2,270**	–
Tax payable		**446**	968
Current portion of long-term liabilities		**2,588**	12,554
Short-term bank loans		**161,822**	113,060
		211,228	184,859

	Notes	30/6/2005 HK$'000 (Unaudited)	31/12/2004 HK$'000 (Audited) (Restated)
Net current assets		**132,144**	115,831
Total assets less current liabilities		**419,435**	392,218
Representing:			
Share capital	*12*	**15,417**	15,212
Reserves	*13*	**378,694**	358,152
Proposed dividend	*13*	**7,709**	–
Equity attributable to equity holders of the Company		**401,820**	373,364
Minority interests		**11,797**	12,274
Non-current liabilities			
Long-term liabilities		**5,818**	6,580
		419,435	392,218

The accounts on pages 13 to 27 were approved and authorised for issue by the Board of Directors on 19 August 2005 and are signed on its behalf by:

TAO Lung
Director

JIN Wei
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Shareholders' equity as at 1 January	**373,364**	236,246
Profit for the period	**26,731**	26,667
Dividends	**(7,709)**	(22,409)
Shares allotted and issued for final settlement of consideration in respect of acquisition of a subsidiary	**9,434**	–
Issue of shares by placement	**–**	122,400
Share issue expenses	**–**	(3,838)
Issue of shares on exercise of share options	**–**	4,371
Issue of shares for scrip dividends	**–**	1,354
Shareholders' equity as at 30 June	**401,820**	364,791

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(48,257)**	(3,139)
Net cash used in investing activities	**(27,180)**	(66,742)
Net cash from financing activities	**34,965**	74,523
Net (decrease)/increase in cash and cash equivalents	**(40,472)**	4,642
Cash and cash equivalents at 1 January	**92,229**	62,105
Cash and cash equivalents at 30 June	**51,757**	66,747

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

For the six months ended 30 June 2005

1. BASIS OF PRESENTATION

The unaudited condensed consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") .

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated accounts have been prepared on the historical cost basis.

The accounting policies adopted in the condensed consolidated accounts are consistent with those followed in the preparation of the Group's consolidated accounts for the year ended 31 December 2004 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised applicable HKASs, Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas and has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

(a) Business combinations

In the current period, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(b) Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based payments" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted before or after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. Comparative figures have not been restated.

(c) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in fixed assets and measured using the cost model. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating lease, which are carried at cost and amortised over the lease term. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as fixed assets.

Effect of adopting HKAS 17 on condensed consolidated balance sheet:

	30/6/2005 ***HK$'000***	31/12/2004 *HK$'000*
Decrease in fixed assets	**(28,086)**	(21,835)
Increase in prepaid lease payments on land use rights	**28,086**	21,835
Change in equity	**–**	–

(d) Financial instruments

In the current period, the Group has applied HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005 generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classifies and measures its debt and equity securities in accordance with the requirements of HKAS 39. Investment securities classified under non-current assets with carrying amount of HK$5,616,000 and HK$47,000 were reclassified to held-to-maturity financial assets and available-for-sale financial assets on 1 January 2005 respectively.

(e) Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the accounts of the Group.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Interpretation 4	Determining whether an Arrangement contains a Lease
HKFRS-Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. REVENUE

The Group is principally engaged in the sales and manufacturing of pharmaceutical products. Turnover represents invoiced value of sales, net of returns, discounts allowed, or sales taxes where applicable, sales of technology and licence fee income.

The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales and manufacturing of pharmaceutical products. The Group's principal market is in the People's Republic of China (the "PRC").

Neither the business segments of the sales of technology and licensing nor the geographical segment in other country are of a sufficient size to be reported separately.

4. PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting and charging the following:–

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Crediting:		
Amortisation of negative goodwill	**–**	19
Exchange gain	**–**	301
Grants and subsidies from government	**3,322**	4,139
Profit on sale of leasehold land and buildings	**5,390**	–
Gain on disposal of other fixed assets	**37**	–
Over-provision for trade receivables	**222**	–
Charging:		
Amortisation of intangible assets		
– goodwill	**–**	2,147
– patents	**143**	182
– development costs	**344**	160
Depreciation of fixed assets	**11,352**	4,635
Amortisation of prepaid lease payments on land use rights	**194**	181
Research and development costs	**897**	1,079
Provision for trade receivables	**–**	1,227
Provision for and write-off of inventories	**–**	492
Exchange loss	**584**	–

5. TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Overseas income tax		
– current year charge	**3,035**	2,399
– over-provision in prior years	**(1,883)**	–
Taxation attributable to the Company and subsidiaries	**1,152**	2,399

Hong Kong profits tax has not been provided for in the accounts as there was no estimated assessable profit derived from both periods.

The Hong Kong profits tax amounting in total to HK$6,031,000 of a subsidiary of the Company for the financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased.

The Group has received an advice from a tax expert that, the profits of that subsidiary for the financial years 2000 and 2001 were neither arisen in nor derived from Hong Kong. The Company believes that it has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong profits tax. Accordingly, no provision for profits tax is required.

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, certain subsidiaries operating in the PRC are entitled to exemption from income tax in the first two years from the first profit-making year, 50% reduction of income tax in the subsequent three years and thereafter, preferential treatments which are subject to the relevant law and regulations. One subsidiary was taxed at 7.5% (2004: 7.5%). Other subsidiaries were either in loss-making position for the current and the previous period or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the period and accordingly did not have any assessable income.

The subsidiary operating in Macao is exempted from income tax in Macao.

No Australian income tax has been provided as the subsidiaries operating in Australia had no estimated assessable profits for the current and previous period.

6. DIVIDEND

The Board proposed an interim dividend of HK0.5 cent per share for the 2nd quarter of 2005. Together with the interim dividend of HK0.5 cent per share paid for the 1st quarter of 2005, total dividends per share for two quarters were HK1 cent (6 months ended 30 June 2004: HK0.5 cent).

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of the Company of HK$26,731,000 (2004: HK$26,667,000).

The basic earnings per share is based on the weighted average number of 1,538,987,619 (2004: 1,442,212,000) ordinary shares in issue during the period.

The diluted earnings per share was the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the period (Six months ended 30 June 2004 : the diluted earnings per share was based on 1,453,243,000 ordinary shares which were the weighted average number of 1,499,287,194 ordinary shares in issue plus the weighted average number of shares deemed to be issued at no consideration as if all outstanding dilutive share options had been exercised during the period).

8. ADDITIONS TO FIXED ASSETS

During the period, the Group spent approximately HK$22 million (2004: HK$42 million) on additions to fixed assets to upgrade its manufacturing capacities, construct new manufacturing plant and upgrade its R&D centers.

9. INVESTMENT SECURITIES

	30/6/2005 HK$'000 (Unaudited)	31/12/2004 HK$'000 (Audited)
Unlisted held-to-maturity financial asset – guaranteed funds	**4,056**	4,056
Unlisted held-to-maturity financial asset – certificates of deposits	**1,560**	1,560
Unlisted available-for-sale financial asset	**47**	–
Unlisted equity securities	**15,825**	15,825
	21,488	21,441

10. RECEIVABLES AND PREPAYMENTS

The Group's sales for the period are on open account terms. The Group normally grants to its customers credit period ranging from 90 days to 180 days which are subject to periodic review by management.

The aging analysis of the trade receivables net of provision for doubtful debts was as follows:–

	30/6/2005 HK$'000 (Unaudited)	31/12/2004 HK$'000 (Audited)
Trade receivables		
Within 30 days	**38,958**	35,274
31 – 60 days	**29,327**	38,196
61 – 90 days	**30,851**	25,731
Over 90 days	**16,115**	13,859
	115,251	113,060
Bills receivables	**26,155**	8,683
Prepayment, deposits and other receivables	**59,270**	21,880
	200,676	143,623

11. TRADE AND OTHER PAYABLES

The aging analysis of the trade payables was as follows:–

	30/6/2005 HK$'000 (Unaudited)	31/12/2004 HK$'000 (Audited)
Trade payables		
Within 30 days	**6,040**	7,997
31 – 60 days	**5,369**	3,099
61 – 90 days	**647**	334
Over 90 days	**5,840**	21,281
	17,896	32,711
Accrued charges and other payables	**26,206**	25,566
	44,102	58,277

12. SHARE CAPITAL

Authorised:

	Number of shares	Par value per share *HK$*	Amount *HK$'000*
At 31 December 2004 and 30 June 2005	50,000,000,000	0.01	500,000

Issued and fully paid:

	Number of shares	Par value per share *HK$*	Amount *HK$'000*
At 1 January 2005	1,521,198,380	0.01	15,212
Shares allotted and issued for final settlement of consideration in respect of acquisition of a subsidiary *(note)*	20,508,613	0.01	205
At 30 June 2005	1,541,706,993		15,417

Note: On 25 January 2005, the Company allotted and issued 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the final phase of the consideration for the acquisition of 15% equity interest in a subsidiary.

13. RESERVES

	Share premium HK$'000	Exchange translation reserve HK$'000	Reserve fund HK$'000	Enterprise development fund HK$'000	Retained profits HK$'000	Total HK$'000
(Audited)						
At 1 January 2004	106,901	(464)	8,492	616	107,552	223,097
Transfer of reserves	–	–	7,341	–	(7,341)	–
Premium on issue of shares on exercise of share options	4,244	–	–	–	–	4,244
Profit for the year	–	–	–	–	32,776	32,776
2003 final dividends	–	–	–	–	(22,409)	(22,409)
2004 interim dividends	–	–	–	–	(7,496)	(7,496)
Premium on issue of shares for scrip dividends	1,849	–	–	–	–	1,849
Premium on issue of shares for partial settlement of consideration in respect of acquisition of a subsidiary	9,229	–	–	–	–	9,229
Premium on issue of shares by placement	120,700	–	–	–	–	120,700
Share issue expenses	(3,838)	–	–	–	–	(3,838)
At 31 December 2004	239,085	(464)	15,833	616	103,082	358,152
Representing:						
Company and subsidiaries	239,085	(464)	15,833	616	103,194	358,264
Associate	–	–	–	–	(112)	(112)
	239,085	(464)	15,833	616	103,082	358,152
(Unaudited)						
At 1 January 2005	239,085	(464)	15,833	616	103,082	358,152
Profit for the period	–	–	–	–	26,731	26,731
2005 interim dividends	–	–	–	–	(7,709)	(7,709)
Premium on issue of shares for acquisition of a subsidiary	9,229	–	–	–	–	9,229
At 30 June 2005	**248,314**	**(464)**	**15,833**	**616**	**122,104**	**386,403**
Representing:						
Reserves	248,314	(464)	15,833	616	114,395	378,694
2005 interim dividend *(note)*	–	–	–	–	7,709	7,709
	248,314	(464)	15,833	616	122,104	386,403
Representing:						
Company and subsidiaries	248,314	(464)	15,833	616	122,180	386,479
Associate	–	–	–	–	(76)	(76)
	248,314	(464)	15,833	616	122,104	386,403

Note: In the directors meeting held on 19 August 2005, the directors have resolved the payment of an interim dividend of HK0.5 cent for the six months ended 30 June 2005 to the Shareholders appeared on the register of members on 16 September 2005.

14. RELATED PARTY TRANSACTIONS

(a) A subsidiary of the Group purchased raw materials from Pharmco International, Inc. ("Pharmco") amounted of approximately HK$40,837,000 during the six months ended 30 June 2005 (six months ended 30 June 2004: HK$32,142,000), a company wholly owned by the minority shareholders of another subsidiary, at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(b) At 30 June 2005, short-term bank loans of approximately HK$9,434,000 (31 December 2004: HK$9,434,000) of Vital Pharmaceuticals (Sichuan) Co., Ltd., a 100% owned subsidiary of the Group, were guaranteed by Wuhan Weiao Pharmaceutical Co., Ltd., a 95% owned subsidiary of the Group.

(c) A tax indemnity dated 30 January 2002 were entered into by the controlling shareholders of the Company, the Company and certain of its subsidiaries that the controlling shareholders provide indemnities on a joint and several basis in respect of, among other matters, taxation which might be payable by any member of the Group at that time in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.

15. COMMITMENTS

(a) Capital commitments

	30/6/2005 ***HK$'000*** **(Unaudited)**	31/12/2004 *HK$'000* (Audited)
Authorised but not contracted for		
– fixed assets	**–**	2,641
Contracted but not provided for		
– fixed assets	**16,192**	20,185
– investment in a subsidiary	**6,792**	19,139
	22,984	39,324
	22,984	41,965

(b) Commitments for the development of new products and/or technologies

	30/6/2005 ***HK$'000*** **(Unaudited)**	31/12/2004 *HK$'000* (Audited)
Contracted but not provided for	**11,513**	573

16. PLEDGE OF ASSETS

At 30 June 2005, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:–

	30/6/2005	31/12/2004
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Fixed assets	**25,405**	25,856
Investment securities	**5,616**	5,616
Bank balances and cash	**29,953**	17,876
	60,974	49,348

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHT TO SUBSCRIBE FOR SHARES

In the reporting period, none of the Directors or chief executive or their respective spouse and children under 18 of age was granted any options to subscribe for shares of the Company or its associated corporations, nor had exercised such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, according to the register of substantial holders kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly, or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Company/Name of Group member	Capacity	Number of shares *(Note 1)*		Approximate percentage of shareholding
Perfect Develop *(Note 2)*	Company	Beneficial owner	522,526,940	(L)	33.89%
Mr. Tao *(Note 3)*	Company	Beneficial owner	110,891,648	(L)	7.19%
		Interest of a controlled corporation	522,526,940	(L)	33.89%
Ms. Li Chun Yi *(Note 4)*	Company	Interest of spouse	633,418,588	(L)	41.08%
Tiedemann Global Emerging Markets L.P.	Company	Beneficial owner	77,860,000	(L)	5.05%

Notes:

1. The letter "L" denotes the person's/entity's long position in the shares.

2. The entire issued share capital of Perfect Develop is owned as to 71.39% by Mr. Tao and 17.48% by Mr. Liu. Mr. Tao and Mr. Liu are founders of the Group and executive directors of the Company.

3. Mr. Tao owns in aggregate 4,900 shares, representing approximately 71.39% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SFO, to be interested in all the Shares in which Perfect Develop is interested, amounting to 522,526,940 Shares. Together with 110,891,648 Shares registered in his own name, Mr. Tao is deemed, by virtue of the SFO, to be interested in, 633,418,588 Shares in aggregate, amounting to approximately 41.08% of the issued share capital of the Company as at 30 June 2005.

4. Ms. Li Chun Yi is the wife of Mr. Tao and is taken to be interested in the Shares in which Mr. Tao is interested by virtue of the SFO.

SHARE OPTION SCHEME

The share option scheme effective on 26 January 2002 (the "Old Scheme") was replaced by a new share option scheme adopted by the shareholders on 23 July 2003 (the "Scheme"). The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 127,746,216 shares.

First phase:

On 21 June 2002, the Directors granted under the Old Scheme options to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price at HK$0.39 per share. Those who were granted with the options can exercise their rights from 16 August 2002 to 6 February 2012.

Among the grantees, 108 of them are full-time employees of the Company and an aggregate of 21,100,000 options were granted to them; 29 of them are staff of major customers of the Company and an aggregate of 8,900,000 options are granted to them. As at 31 December 2004, an aggregate of 2,990,000 options granted were exercised. During the reporting period, no option was exercised, lapsed or cancelled. As at 30 June 2005, 27,010,000 share options remained outstanding and exercisable (31 Dec 2004: 18,650,000).

Second phase:

On 28 February 2003, the Directors granted options to three directors of certain subsidiaries of the Group to subscribe for 19,800,000 shares of the Company, with an exercise price at HK$0.24 per share. In 2004, all options in this phase were fully exercised.

Third phase:

On 29 September 2003, the Directors granted options to subscribe for an aggregate of 28,500,000 shares of the Company, with an exercise price at HK$0.51 per share. Those who were granted with the options can exercise their rights from 16 August 2002 to 6 February 2012.

Among the grantees, 14 of them are full-time employees of the Company and an aggregate of 15,095,000 options were granted to them; 5 of them are directors of certain subsidiaries of the Group and an aggregate of 12,405,000 options are granted to them; and one of them is a consultant of a wholly owned subsidiary and 1,000,000 options are granted. In 2004, an aggregate of 3,180,000 options granted were exercised. During the reporting period, no options was exercised, lapsed or cancelled. As at 30 June 2005 and 31 Dec 2004, 25,320,000 share options remained outstanding and exercisable.

Valuation of the options granted under the Scheme:

The Company adopted Black-Scholes Options Pricing Model to calculate the value of share options.

First phase

For share options to subscribe for 30,000,000 shares granted on 21 June 2002 with an exercise price of HK$0.39 each, the fair value of the options was HK$0.25 at the date of grant with assumptions as follows:

1. Using the annual exchange fund notes interest rate of 1.57% as the risk-free interest rate;

2. The expected life is 9.5 years;

3. The expected volatility is 60.16% during the period from 7 February 2002, being the listing day on the GEM of the Company's shares, to 20 June 2002; and

4. No expected dividend as the Company is newly listed on the GEM.

Second phase

For share options to subscribe for 19,800,000 shares granted on 28 February 2003 with an exercise price of HK$0.24 each, the fair value of the share options was HK$0.15 at the date of grant with assumptions as follows:

1. Using the annual exchange fund notes interest rate of 1.9% as the risk-free interest rate;

2. The expected life is 9 years;

3. The expected volatility is 54.66% during the period from 7 February 2002, being the date of the listing of the Company's shares on the GEM, to 28 February 2003; and

4. No expected dividend as the Company has a track record of dividends for only 1 year.

Third phase

For share options to subscribe for 30,000,000 shares granted on 29 September 2003 with an exercise price of HK$0.51 each, the fair value of the share options was HK$0.17 at the date of grant with assumptions as follows:

1. Using the annual exchange fund notes interest rate of 1.68% as the risk-free interest rate;

2. The expected life is 8.5 years;

3. The expected volatility is 48.16% during the period from 30 September 2002 to 29 September 2003; and

4. Expected annual dividend yield of the Company is 3.9%.

Note: The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

OTHER SHARE OPTIONS

On 22 September 2003, the Group entered into an agreement to acquire the remaining 15% minority interest of the subsidiary, Vital Pharmaceuticals (Sichuan) Co Ltd. The remaining monetary considerations of the acquisition amounting to approximately HK$28.3 million representing 60% of the total considerations will be settled at the sole option of the Company, either in cash or in new ordinary share of the Company. On or before the following dates, the Company may opt to pay cash or to issue new ordinary shares by serving a notice to the seller (the "Notice"):

- 22 March 2004: HK$9,433,962;
- 22 September 2004: HK$9,433,962; and
- 22 March 2005: HK$9,433,962.

The number of option share is calculated at a price that is equal to the higher of the average 30 day closing price of the Company's share on the Stock Exchange immediate prior to the date of the Notice and HK$0.46 per share. The maximum number of option share to be issued if based on HK$0.46 per share will be 61,525,839. A conditional approval has been obtained from the Stock Exchange for the listing of the option shares.

During the year ended 31 December 2004, the Company issued 20,508,613 new ordinary shares and paid 9,433,962 monetary considerations to the seller.

On 25 January 2005, the Company issued the 20,508,613 new ordinary shares for the final payment.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The details of the trade receivable due from the entity 四川恆泰醫藥有限公司 ("Sichuan Hengtai Medicine Limited") (Note 1) as at 30 June 2005 was approximately HK$86 million, representing 14% of Total Assets (Note 2), and 22% of Market Capitalisation (Note 3).

Notes:

1. The trade receivable is unsecured, interest-fee and with credit terms from 90 to 150 days. The amount primarily arose from sales of the Group's house products.
2. "Total Assets" means the total assets of the Group of HK$630,663,000 as at 30 June 2005 calculated with reference to the Group's unaudited consolidated balance sheet as at 30 June 2005.
3. "Market Capitalisation" is the average closing price of the Company as stated in the daily quotation sheets of the Hong Kong Stock Exchange for trading days from 24 June 2005 to 30 June 2005 (both days inclusive).

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 June 2005 have been reviewed by the Company's audit committee and auditors, Ho and Ho & Company.

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with the management. The Group's financial statements for the six months ended 30 June 2005 have been reviewed and adopted by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Lui Tin Nang (Audit Committee chairman), Mr. Lee Kwong Yiu and Mr. Lo Wa Kei Roy.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors, the chairman and the chief executive officer of the Company, is responsible for reviewing and evaluating the remuneration packages of the executive directors and senior management and making recommendations to the board of directors from time to time.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the period.

CORPORATE GOVERNANCE

The Group has complied with all of the code provisions in Appendix 14 of the Listing Rules during the period except that the functions reserved to the Board and those delegated to the management will be finalized.

The Board as at the date of this report, comprises six executive directors: Mr. Tao Lung, Mr Xu Xiaofan, Mr. Liu James Jin, Mr. Jin Wei, Mr. Shen Songqing, Mr. Huang Jianming and three independent non-executive directors: Mr. Lui Tin Nang, Mr. Lee Kwong Yiu and Mr. Lo Wa Kei Roy.

On behalf of the Board
TAO Lung
Chairman

Hong Kong, 19 August 2005