



Extrawell Pharmaceutical Holdings Limited
(incorporated in Bermuda with limited liability)

2002 Interim Report

The board of directors (the “Directors”) of Extrawell Pharmaceutical Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002. A summary extract of this interim financial report is published in a press announcement on 23 December 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

		For the six months ended 30 September	
		2002	2001
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2	104,838	63,670
Cost of sales		(46,348)	(29,207)
Gross profit		58,490	34,463
Other revenue		12,847	4,281
Selling and distribution costs		(14,325)	(7,121)
Administrative expenses		(14,378)	(10,393)
PROFIT FROM OPERATING ACTIVITIES	4	42,634	21,230
Finance costs	5	(1,570)	(811)
PROFIT BEFORE TAX		41,064	20,419
Tax	6	(1,569)	(2,511)
PROFIT BEFORE MINORITY INTERESTS		39,495	17,908
Minority interests		(15,771)	(1,636)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		23,724	16,272
Dividend	7	—	—
EARNINGS PER SHARE	8		
– Basic		HK1.06 cent	HK0.86 cent
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 September 2002 HK\$'000	(Audited) At 31 March 2002 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Interest in a jointly-controlled entity		13,994	–
Interest in an associate		11,321	–
Due from a related company		7,092	–
Fixed assets		109,382	87,329
Intangible assets		193,004	104,005
		<u>334,793</u>	<u>191,334</u>
CURRENT ASSETS			
Inventories		30,434	11,728
Accounts receivable	9	101,705	108,325
Prepayments, deposits and other receivables		33,866	13,060
Pledged bank deposits	12	22,609	26,480
Cash and bank balances		61,433	29,728
		<u>250,047</u>	<u>189,321</u>
CURRENT LIABILITIES			
Accounts and bills payable	10	3,139	5,889
Tax payable		10,865	11,080
Accrued liabilities and other payables		3,286	27,722
Due to minority equity holders	11	–	1,210
Interest-bearing bank borrowings	12	40,148	47,292
Promissory notes	13	–	27,500
		<u>57,438</u>	<u>120,693</u>
NET CURRENT ASSETS		<u>192,609</u>	<u>68,628</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>527,402</u>	<u>259,962</u>
NON-CURRENT LIABILITIES			
Due to minority equity holders	11	27,959	9,091
Promissory notes	13	30,000	–
MINORITY INTERESTS		<u>166,056</u>	<u>23,666</u>
		<u>303,387</u>	<u>227,205</u>
CAPITAL AND RESERVES			
Issued capital	14	22,900	21,700
Reserves		280,487	205,505
		<u>303,387</u>	<u>227,205</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Con- tributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001 (audited)	19,000	19,321	1,192	4,839	74,778	119,130
Net profit for the period (unaudited)	–	–	–	–	16,272	16,272
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 September 2001 (unaudited)	<u>19,000</u>	<u>19,321</u>	<u>1,192</u>	<u>4,839</u>	<u>91,050</u>	<u>135,402</u>
At 1 April 2002 (audited)	21,700	82,459	2,068	4,839	116,139	227,205
Issue of shares (unaudited)	1,200	52,800	–	–	–	54,000
Share issue expenses (unaudited)	–	(1,542)	–	–	–	(1,542)
Net profit for the period (unaudited)	–	–	–	–	23,724	23,724
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 September 2002 (unaudited)	<u>22,900</u>	<u>133,717</u>	<u>2,068</u>	<u>4,839</u>	<u>139,863</u>	<u>303,387</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,988)	(2,139)
Net cash inflow/(outflow) from investing activities	41,337	(23,898)
Net cash inflow/(outflow) from financing activities	(11,515)	24,454
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	27,834	(1,583)
Cash and cash equivalents at beginning of period	56,208	38,236
CASH AND CASH EQUIVALENTS AT END OF PERIOD	84,042	36,653
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	61,433	18,345
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	22,609	18,308
	84,042	36,653

Notes:

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's Audit Committee.

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. In preparing these unaudited condensed consolidated interim financial statements, the Directors confirm that the accounting policies and method of computation applied are consistent with those used in the audited consolidated financial statements for the year ended 31 March 2002 except as disclosed below.

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants are effective for the first time for this interim financial statements:

SSAP 1 (Revised)	:	"Presentation of Financial Statements"
SSAP 11 (Revised)	:	"Foreign Currency Translation"
SSAP 15 (Revised)	:	"Cash Flow Statements"
SSAP 25 (Revised)	:	"Interim Financial Reporting"
SSAP 33	:	"Discontinuing Operations"
SSAP 34	:	"Employee Benefits"

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and have been prepared in accordance with SSAP 25 "Interim Financial Reporting".

2. TURNOVER

Turnover represents the invoiced value of goods sold, net of trade discounts and returns and sales of technical knowhow on genome related technology by contractual arrangement, and after elimination of all significant intra-group transactions.

3. SEGMENT INFORMATION

The following table presents revenue and results information for the Group's business segments.

	(Unaudited) Manufacturing		(Unaudited) Trading		(Unaudited) Development		(Unaudited) Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>34,087</u>	<u>29,798</u>	<u>49,841</u>	<u>33,872</u>	<u>20,910</u>	<u>-</u>	<u>104,838</u>	<u>63,670</u>
Segment results	<u>11,976</u>	<u>13,288</u>	<u>13,573</u>	<u>10,950</u>	<u>22,062</u>	<u>-</u>	<u>47,611</u>	<u>24,238</u>
Interest income							469	951
Unallocated expenses							<u>(5,446)</u>	<u>(3,959)</u>
Profit from operating activities							<u>42,634</u>	<u>21,230</u>
Finance costs							<u>(1,570)</u>	<u>(811)</u>
Profit before tax							<u>41,064</u>	<u>20,419</u>
Tax							<u>(1,569)</u>	<u>(2,511)</u>
Profit before minority interests							<u>39,495</u>	<u>17,908</u>
Minority interests							<u>(15,771)</u>	<u>(1,636)</u>
Net profit from ordinary activities attributable to shareholders							<u>23,724</u>	<u>16,272</u>

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	(Unaudited)	
	For the six months	
	ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	46,348	29,207
Staff costs (excluding directors' remuneration)	6,298	5,410
Directors' remuneration	926	1,240
Depreciation	4,555	1,765
Exchange losses, net	508	235
Amortisation of intangible assets	4,365	493
Gain on disposal of fixed assets and intangible assets, net	(1,018)	–
Interest income on bank balances	(469)	(951)
	=====	=====

5. FINANCE COSTS

	(Unaudited)	
	For the six months	
	ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Interest expense on:		
Bank overdrafts and loans wholly repayable within five years	1,570	703
Due to minority equity holders	–	108
	=====	=====
	1,570	811
	=====	=====

6. TAX

	(Unaudited)	
	For the six months	
	ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Current – Outside Hong Kong	<u>1,569</u>	<u>2,511</u>

No provision for Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the period ended 30 September 2002 (six months ended 30 September 2001: Nil). Taxes on profits of subsidiaries operating outside Hong Kong during the period have been calculated at the rates of taxes applicable in the respective jurisdictions, based on existing legislation, interpretations and practices.

No deferred tax has been provided because the Group had no significant timing differences at balance sheet date (31 March 2002: Nil).

7. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the period (six months ended 30 September 2001: Nil).

8. EARNINGS PER SHARE

Basic

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$23,724,000 (six months ended 30 September 2001: HK\$16,272,000) and the weighted average of 2,246,721,311 (six months ended 30 September 2001: 1,900,000,000) ordinary shares in issue during the period.

Diluted

Diluted earnings per share for each of the six months ended 30 September 2001 and 2002 have not been calculated as no dilutive events existed during these two periods.

9. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period for imported distribution pharmaceutical customers are generally 120 days. For manufacturing pharmaceutical entities, credit terms are extended from 120 days to 180 days as sales are first directed to wholesalers for their distribution to end customers. For the gene chips manufacturing and development entities, the customers' credit terms, which are based on contracts, are ranging from 30 days to 365 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

9. ACCOUNTS RECEIVABLE (continued)

The ageing of the Group's accounts receivable is analysed as follows:

	(Unaudited) At 30 September 2002 HK\$'000	(Audited) At 31 March 2002 HK\$'000
Outstanding balances with ages:		
Within 90 days	66,557	80,546
Between 91 to 180 days	13,018	28,983
Between 181 to 365 days	26,869	3,973
Between 1 to 2 years	2,132	2,399
Over 2 years	3,452	3,807
	<u>112,028</u>	<u>119,708</u>
Less: Provision for bad and doubtful debts	<u>(10,323)</u>	<u>(11,383)</u>
	<u><u>101,705</u></u>	<u><u>108,325</u></u>

Included in the Group's accounts receivable as at 31 March 2002 was an amount due from a subsidiary of a minority equity holder of the Company's subsidiary of HK\$5,913,000, which was repayable on similar terms to those offered to the major customers of the Group. The amount had been settled during the period under review.

10. ACCOUNTS AND BILLS PAYABLE

The ageing of the Group's accounts and bills payable is analysed as follows:

	(Unaudited) At 30 September 2002 HK\$'000	(Audited) At 31 March 2002 HK\$'000
Outstanding balances with ages:		
Within 90 days	3,139	5,719
Between 91 to 180 days	–	92
Over 2 years	–	78
	<u>3,139</u>	<u>5,889</u>

11. DUE TO MINORITY EQUITY HOLDERS

The amounts due to minority equity holders are unsecured and interest-free. Except for the amounts of HK\$9,091,000 (31 March 2002: HK\$9,091,000) and HK\$18,868,000 (31 March 2002: Nil) which are repayable upon the end of the operating period of respective subsidiaries, which are on 21 April 2014, and 25 September 2030, respectively, the other balances were settled during the period.

12. INTEREST-BEARING BANK BORROWINGS

	(Unaudited) At 30 September 2002 HK\$'000	(Audited) At 31 March 2002 HK\$'000
Bank overdrafts, secured	11,062	13,199
Trust receipt loans, secured	10,218	8,621
Bank loans, secured	18,868	25,472
	<u>40,148</u>	<u>47,292</u>

At 30 September 2002, the Group's banking facilities were supported by the following:

- (a) the pledge of the Group's fixed deposits of approximately HK\$22.6 million (31 March 2002: HK\$26.5 million);
- (b) corporate guarantees from the Company and certain subsidiaries of the Company; and
- (c) legal charges over certain leasehold land and buildings, and plant and machinery of a subsidiary of the Company.

13. PROMISSORY NOTES

During the year ended 31 March 2002, the Group issued a promissory note of HK\$27,500,000 to Biowindow Gene Development (Hong Kong) Limited as part of the consideration for the acquisition of the entire issued capital of Right & Rise Limited. The promissory note was unsecured, interest-free and was repayable on or before 6 February 2003. During the period under review, the Group had redeemed and fully settled the amount.

On 8 July 2002, the Group acquired 55% of the issued share capital in Gene Generation Limited for a consideration of HK\$55,000,000. The consideration was satisfied in the form of five promissory notes issued by Best-Bio Developments Limited bearing interest at the rate 1% per annum and maturing over 5 years from 9 July 2002. During the period under review, the Group has redeemed and settled HK\$25,000,000.

14. SHARE CAPITAL

	Company	
	(Unaudited)	(Audited)
	30 September	31 March
	2002	2002
	HK\$'000	HK\$'000
Authorized:		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
2,290,000,000 (31 March 2002: 2,170,000,000) ordinary shares of HK\$0.01 each	<u>22,900</u>	<u>21,700</u>

A summary of the movements in the issued share capital of the Company during the period is as follow:

	Number of shares issued '000	Par value HK\$'000
Balance at 1 April 2002	2,170,000	21,700
Issue of shares (<i>Note</i>)	<u>120,000</u>	<u>1,200</u>
Balance at 30 September 2002	<u>2,290,000</u>	<u>22,900</u>

Note: Pursuant to a placing and subscription agreement dated 23 May 2002, a total of 120,000,000 ordinary shares of HK\$0.01 each of the Company owned by JNJ Investments Ltd ("JNJ"), a substantial shareholder of the Company, were sold to independent investors at HK\$0.45 per share and 120,000,000 ordinary shares were issued by the Company to JNJ at HK\$0.45 per share. The 120,000,000 ordinary shares were issued for cash of HK\$54,000,000.

15. CONTINGENT LIABILITIES

As at 30 September 2002, the Group had no significant contingent liabilities. As at 31 March 2002, the Group had bills discounted with recourse of approximately HK\$16,556,000.

16. COMMITMENTS

As at the balance sheet date, the Group had the following commitments in respect of the construction/upgrading of existing manufacturing plant in the People's Republic of China (the "PRC"):

	(Unaudited) At 30 September 2002 HK\$'000	(Audited) At 31 March 2002 HK\$'000
Contracted for	10,000	4,329
Authorised, but not contracted for	<u>10,000</u>	<u>–</u>
	<u>20,000</u>	<u>4,329</u>

17. OPERATING LEASE ARRANGEMENTS

The Group leased certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms of one to two years.

As at the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	(Unaudited) At 30 September 2002 HK\$'000	(Audited) At 31 March 2002 HK\$'000
Within one year	1,271	–
In the second to fifth years, inclusive	<u>2,288</u>	<u>–</u>
	<u>3,559</u>	<u>–</u>

18. RELATED PARTY TRANSACTION

During the first two months of the period, the Group paid rental expenses amounting to HK\$135,000 (six months ended 30 September 2001: HK\$405,000) to Extrawell Holdings Limited ("EHL") for the leasing of properties in Hong Kong as its office premises. The Company has since moved its registered office to an independently leased property located at 47th Floor, NatWest Tower, Times Square, Causeway Bay, Hong Kong. EHL is a related company of the Group in which Messrs. Ho Chin Hou, Ho Yu Ling and Li Qiang, three of the directors of the Company, have beneficial interests. The rental expenses were determined by the directors with reference to the then prevailing market conditions.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as required to be entered into the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were set out below:

1. Ordinary shares of the Company

Name	Notes	Type of interest	Number of ordinary shares held
Mao Yu Min	(a)	Corporate	680,000,000
Xie Yi	(a)	Corporate	680,000,000
Ho Yu Ling	(b)	Corporate	102,000,000
Li Qiang		Personal	15,000,000

Notes:

- (a) JNJ, Fudan Pharmaceutical Limited ("FPL"), Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") held 500,000,000 shares, 30,000,000 shares, 74,000,000 shares and 76,000,000 shares of the Company, respectively. Details of the interests of Dr. Mao Yu Min ("Dr. Mao") and Dr. Xie Yi ("Dr. Xie") in JNJ, FPL, HK Biowindow and Fudan Biotech are set out in the paragraph headed "SUBSTANTIAL SHAREHOLDERS" below in this interim report.
- (b) These shares are beneficially owned by Well Success Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Ho Yu Ling.

2. Associated corporation

100,000 non-voting deferred shares of HK\$10 each in Extrawell Enterprises Limited, a wholly-owned subsidiary of the Company, are beneficially owned by Extrawell Holdings Limited, a related company of the Group in which Messrs. Ho Chin Hou, Ho Yu Ling and Li Qiang, the three directors and/or beneficial shareholders of the Company, have beneficial interests.

Save as disclosed above, as at 30 September 2002, none of the directors, chief executives or their associates, had any personal, family, corporate or other beneficial interests in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the New Scheme (as defined hereinafter), the details of which are set out in the paragraph headed "EMPLOYMENT AND REMUNERATION POLICY" in this interim financial report, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	
	Direct interest	Deemed interest (Note)
United Gene Holdings Limited ("United Gene")	–	680,000,000
HK Biowindow	74,000,000	604,000,000
JNJ	500,000,000	–

Note: JNJ, FPL, HK Biowindow and Fudan Biotech held 500,000,000 shares, 30,000,000 shares, 74,000,000 shares and 76,000,000 shares of the Company, respectively. The entire issued share capital of JNJ and 80% interest of FPL are owned by HK Biowindow, the issued share capital of which is owned as to 99.01% by United Gene.

The issued share capital of Fudan Biotech is 99% owned by Shanghai Fudan Biotech Limited ("Shanghai Fudan Biotech"). The capital of Shanghai Fudan Biotech is 75% beneficially owned by Shanghai Biowindow Gene Development Co., Ltd, which is owned as to 60% by United Gene, as to 13.575% by Dr. Xie and as to 13.575% by Ms. Sheng Xiao Yu, the spouse of Dr. Mao. The equity capital of United Gene is beneficially owned as to 33.5% by Dr. Mao and 38.5% by Dr. Xie.

Saved as disclosed above, as at 30 September 2002, no other party was recorded as having an interest of 10% or more of the issued share capital of the Company in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The past six months of the current year was a challenging and encouraging period for the Group. During the period, the Group's new factory located at Changchun, Jilin Province, the PRC has successfully obtained the Good Manufacturing Practice ("GMP") compliance certificate. The Group also acquired the Shanghai Biostar Genechip, Inc. ("Biostar") to carry out the industrialization of gene technology.

In the midst of a weak global economic recovery, the Group recorded a substantial increase in the consolidated turnover and profit before tax in the current interim period. The strong growth was emphasized by the endeavor of all management and employees, and contributed by entrepreneurial directions of the Company.

Consolidated turnover for the six months ended 30 September 2002 (the "2002 Interim Period") was approximately HK\$104,838,000, representing a 65% growth from the corresponding period last year (the "2001 Interim Period") of approximately HK\$63,670,000. Gross profit for the 2002 Interim Period was approximately HK\$58,490,000, representing an increase of 70% from the 2001 Interim Period. During the period under review, net profit attributable to shareholders was approximately HK\$23,724,000 (six months ended 30 September 2001: HK\$16,272,000), representing a 46% increase over 2001.

Trading and Distribution of Imported Drugs

The distribution of imported drugs contributes considerable turnover and profit to the Group during the period under review. Turnover and operating profit for distribution of imported products was approximately HK\$49,841,000 and approximately HK\$13,573,000, respectively, in the 2002 Interim Period, representing an increase of 47% and 24%, respectively, over the corresponding period last year. The significant growth in profit is attributable to the efficacy of Central Nervous System drugs is well recognized by local medical doctors and medical experts.

During the period, the Group has intensified its marketing and promotional activities to strengthen its sales network and expansion of coverage to second tier cities such as Xian and Hangzhou. These investments have caused a slight draw back in the profit contribution in this sector. However, it was proven well-rewarded by the improvement in product sales and the increase in market share.

Manufacturing of Ethical and Biological Drugs

Sales in the manufacturing sector also experienced a growth of 14% with turnover increased from approximately HK\$29,798,000 in the 2001 Interim Period to approximately HK\$34,087,000 in the 2002 Interim Period. Operating profit for manufacturing sector decreased from approximately HK\$13,288,000 in the 2001 Interim Period to HK\$11,976,000 in the 2002 Interim Period.

During the period, the Group has focused on the improvement of product awareness for Ozagrel Sodium Injection “洲邦” and Nao An Tai “腦安泰” and increased their market shares. The intensified promotional activities have caused a slight drop in profit margin. The completion of the new factory in January 2002 has also caused a drop in margin due to the charging of depreciation. However, the management is confident that the draw back of these investments are only temporary, but are essential for the enduring growth of profitability of the Group.

The Group has obtained GMP compliance certification for its factory located at Changchun, Jilin Province, the PRC in June 2002. This new factory boost up production capacity for self-manufactured pharmaceutical products by five times with a capacity to run a number of production lines simultaneously for vial form, injection and oral solution manufacturing. The major products are “Nao Geng Sheng Su”, “P-Transfer Factor”, “Wisk” and “Ozagrel Sodium Injection”, etc. The Directors believe the new GMP factory in northern China will improve the brand name and image of the Group as well as the quality of products and production efficiency.

Development and Industrialization of gene technology

In July 2002, the Group emerged into the commercialisation of gene related products through the acquisition of 55% of Gene Generation Limited, a company holding a group of gene research and manufacturing companies such as Biostar, from United Gene at a consideration of HK\$55 million settling by the issuance of 5 promissory notes. Biostar is one of the largest modern biotech enterprises in the PRC, which is engaged in the research of genomic related technology as well as the development, manufacturing and distribution of gene chips. Biostar has the four gene chip manufacturing systems which are the most advanced in the world and a GMP-complied manufacturing premises and its operating system has obtained ISO9001: 2000 accreditation.

The Directors believe that the acquisition of Biostar enables the Group to leverage on the technical expertise of genechip to facilitate the Group's research and development of new pharmaceutical products. In addition, the Group is in the process of registering its patent rights for its genomic-based products and all the major steps of gene chip manufacturing process. Turnover and operating profit derived from gene business was approximately HK\$20,910,000 and HK\$14,480,000 respectively in the 2002 Interim Period. During the period, the Group has introduced a 10% minority interest for one of its subsidiary resulting in a gain of approximately HK\$7,582,000 (six months ended 30 September 2001: Nil).

Outlook

The mission of Extrawell is to improve the quality of human life by providing new pharmaceuticals and innovative genomic-based and drugs and to deliver outstanding values to our shareholders.

Continue exploring new distribution channels

The Group will continue to place efforts to widen its distribution channel for its products. The Group has submitted application for approval to allow Ozagrel Sodium Injection “洲邦” and Nao An Tai “腦安泰” to be sold over-the-counter.

The Group accumulated years of experience in professional promotion and marketing of medicines; established superior trading relationship with more than 600 domestic and foreign medical treatment organizations, pharmaceutical manufacturers and commercial companies. Moreover, frequent academic exchanges were held with domestic and foreign medical treatment and scientific research organizations, as well as pharmaceutical regulatory authorities. The Group will continue to keep a lookout for new breakthroughs and new products which are suitable for distribution in the PRC.

Genomic revolution

Gene chip technology is rapidly improving the ways to develop new pharmaceutical products to treat diseases in the twenty-first century. Capitalising on the strong research and development abilities in gene related area, the Group will continue to unfold the potential on gene patent on hand and to the development and commercialise gene related products.

Progressive improvement and development was achieved by the production of diagnostics chip for G-6PD, Thalassemia and HLA. In addition, a number of important improvements in gene chips manufacturing technology has received support from the PRC Government which in turn strengthen the Group's leading position in the research and development of gene chips. The Group will further invest in research and development of new gene related drugs to bring new windows of profitability to the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2002, the Group had 474 employees (31 March 2002: 394), of which 3 are in Australia, 3 are in Malaysia, 9 are in Hong Kong and 459 are in the PRC.

The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities.

Ordinary resolutions were passed on the annual general meeting of the Company on 8 August 2002, approving the adoption of a new share option scheme (the “New Scheme”) by the Company and the termination of the share option scheme adopted by the Company pursuant to a resolution in writing of the shareholders of the Company passed on 16 January 1999 (the “Old Scheme”).

The New Scheme, with its broadened basis of participation, and absence of performance target to be achieved will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option was granted under the Old Scheme nor the New Scheme.

SEASONAL OR CYCLICAL FACTORS

The Group’s business operations were not significantly affected by any seasonal and cyclical factors except that extended statutory holidays in the PRC may lead to lower Group turnover and profit for the months in which these holidays are declared.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities granted by its principal bankers in Hong Kong. As at 30 September 2002, its principal bankers are Industrial and Commercial Bank of China (Asia) Limited, Malayan Banking Berhad, The Bank of East Asia Limited and Dah Sing Bank Limited.

During the period, the Group issued 120 million shares of HK\$0.01 each at HK\$0.45 per share raising net proceeds of approximately HK\$52 million. The proceeds have been used to purchase fixed assets amounted to approximately HK\$6 million, repayment of bank loans and overdrafts amounted to HK\$12 million. The remaining balance of approximately HK\$34 million was placed in short term fixed deposits and savings account and will be used for payment of planned capital commitments for certain required upgrades and refurbishments of facilities of Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. (“Jilin Changbaishan”) in Changchun, Jilin Province and for general working capital. The upgrade of the facilities are expected to be completed by August 2003.

As at 30 September 2002, the Group's indebtedness includes bank borrowings of approximately HK\$40 million, and promissory notes of approximately HK\$30 million. The promissory notes of HK\$30 million was interest-bearing at 1% per annum and maturing over five years from 9 July 2002. All bank borrowings are interest-bearing at the prevailing market rates. As at 30 September 2002, the gearing ratio was 0.12 (31 March 2002: 0.20), calculated based on the Group's total debts of approximately HK\$70,148,000 (31 March 2002: approximately HK\$74,792,000) over the Group's total assets of approximately HK\$584,840,000 (31 March 2002: approximately HK\$380,655,000).

Except for bank loans of approximately HK\$20 million (RMB21.2 million), all borrowings taken out are in Hong Kong dollars. The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the period. No hedge on foreign currencies was made during the period.

The bank loans are secured by fixed deposits of approximately HK\$22.6 million (31 March 2002: approximately HK\$26.5 million), corporate guarantees from the Company and certain of its subsidiaries, and certain leasehold land and buildings and plant and machinery of the Group.

Except as mentioned above, there were no significant changes in the capital and loan structure of the Group during the period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2002, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Group has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 September 2002.

By Order of the Board

Ho Yu Ling

Executive Director

Hong Kong, 20 December 2002