

INTERIM REPORT 2004



**Extrawell Pharmaceutical
Holdings Limited**

incorporated in Bermuda with limited liability

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 2004. A summary extract of this interim financial report is published in a press announcement dated 16 December 2004.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
(UNAUDITED)**

	Notes	For the six months ended 30 September	
		2004	2003
		HK\$'000	HK\$'000
TURNOVER	2	94,447	94,621
Cost of sales		(63,733)	(53,233)
Gross profit		30,714	41,388
Other revenue		675	6,328
Selling and distribution costs		(6,048)	(9,570)
Administrative expenses		(13,497)	(14,214)
Other operating expenses		(4,138)	(2,619)
PROFIT FROM OPERATING ACTIVITIES	4	7,706	21,313
Finance costs	5	(1,161)	(1,768)
PROFIT BEFORE TAX		6,545	19,545
Tax	6	(1,099)	(2,673)
PROFIT BEFORE MINORITY INTERESTS		5,446	16,872
Minority interests		1,566	(3,591)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		7,012	13,281
DIVIDEND	7	–	–
EARNINGS PER SHARE	8		
– Basic		HK0.31 cent	HK0.58 cent
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets		86,062	113,208
Intangible assets		365,688	127,744
Goodwill		14,662	15,277
Interest in a jointly-controlled entity		–	–
Interest in an associate		–	7,247
Deposits paid		–	20,368
Deferred tax assets	15	2,493	2,493
		468,905	286,337
CURRENT ASSETS			
Inventories		10,130	10,034
Accounts receivable	9	101,626	92,113
Prepayments, deposits and other receivables		42,575	48,738
Due from a related company	10	–	9,171
Pledged bank deposits		13,190	13,305
Cash and bank balances	11	23,621	70,634
		191,142	243,995
CURRENT LIABILITIES			
Accounts and bills payable	12	7,694	13,063
Tax payable		4,746	5,931
Accrued liabilities and other payables		19,717	23,910
Interest-bearing bank borrowings	13	47,489	45,302
		79,646	88,206
NET CURRENT ASSETS		111,496	155,789
TOTAL ASSETS LESS CURRENT LIABILITIES		580,401	442,126
NON-CURRENT LIABILITIES			
Due to a minority equity holder	14	–	18,868
		–	18,868
MINORITY INTERESTS		226,336	74,566
		354,065	348,692
CAPITAL AND RESERVES			
Issued capital	16	22,900	22,900
Reserves		331,165	325,792
		354,065	348,692

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital	Share premium account	Capital reserve	Contributed surplus	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003						
As previously reported (audited)	22,900	133,717	3,708	4,839	167,688	332,852
Prior year adjustment Statements of Standard Accounting Practice ("SSAP") 12 restatement of deferred tax (unaudited)	—	—	—	—	750	750
At 1 April 2003, as restated (unaudited)	22,900	133,717	3,708	4,839	168,438	333,602
Net profit for the period (unaudited)	—	—	—	—	13,281	13,281
At 30 September 2003 (unaudited)	<u>22,900</u>	<u>133,717</u>	<u>3,708</u>	<u>4,839</u>	<u>181,719</u>	<u>346,883</u>
At 1 April 2004 (audited)	22,900	133,717	6,116	4,839	181,120	348,692
Net profit for the period (unaudited)	—	—	—	—	7,012	7,012
Disposal of subsidiaries (unaudited)	—	—	(1,639)	—	—	(1,639)
At 30 September 2004 (unaudited)	<u>22,900</u>	<u>133,717</u>	<u>4,477</u>	<u>4,839</u>	<u>188,132</u>	<u>354,065</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30 September	
	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(14,974)	17,565
Net cash inflow/(outflow) from investing activities	(26,035)	12,883
Net cash inflow/(outflow) from financing activities	1,026	(26,773)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(39,983)	3,675
Cash and cash equivalents at beginning of period	70,634	58,247
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>30,651</u>	<u>61,922</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	23,621	59,835
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	7,030	13,270
Bank overdrafts	–	(11,183)
	<u>30,651</u>	<u>61,922</u>

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 2004.

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 net invoiced value of goods sold, after allowances for returns and trade discounts, and proceeds from the assignment of technical knowhow. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

3. SEGMENT INFORMATION

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

	(Unaudited) Manufacturing		(Unaudited) Trading		(Unaudited) Gene development		(Unaudited) Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>24,968</u>	<u>50,982</u>	<u>68,486</u>	<u>41,565</u>	<u>993</u>	<u>2,074</u>	<u>94,447</u>	<u>94,621</u>
Segment results	<u>1,150</u>	<u>18,605</u>	<u>11,384</u>	<u>3,531</u>	<u>(3,184)</u>	<u>1,558</u>	<u>9,350</u>	<u>23,694</u>
Bank interest income							119	238
Unallocated expenses							<u>(1,763)</u>	<u>(2,619)</u>
Profit from operating activities							<u>7,706</u>	<u>21,313</u>
Finance costs							<u>(1,161)</u>	<u>(1,768)</u>
Profit before tax							<u>6,545</u>	<u>19,545</u>
Tax							<u>(1,099)</u>	<u>(2,673)</u>
Profit before minority interests							<u>5,446</u>	<u>16,872</u>
Minority interests							<u>1,566</u>	<u>(3,591)</u>
Net profit from ordinary activities attributable to shareholders							<u>7,012</u>	<u>13,281</u>

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

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	
	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold [#]	63,733	53,233
Depreciation [#]	3,885	4,627
Exchange losses, net	162	121
Amortisation of intangible assets	2,375	5,111
Amortisation of goodwill	1,763	2,619
Loss/(gain) on disposal of fixed assets and intangible assets, net	49	(3,057)
Interest income on bank balances	(119)	(238)
Gain on disposal of a group of subsidiaries*	(1,555)	–
Bad debt provision written back	(2,382)	–
	<u>63,733</u>	<u>53,233</u>

[#] Cost of inventories sold includes HK\$2,654,000 (six months ended 30 September 2003: HK\$3,405,000) related to depreciation, which is also included in the total amounts disclosed separately above for depreciation.

* During the period ended 30 September 2004, the Group disposed of certain of subsidiaries through its disposal of the entire interest in Gene Generation Limited at a consideration of HK\$28,000,000.

5. FINANCE COSTS

	(Unaudited)	
	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on:		
Bank overdrafts and loans wholly repayable within five years	1,161	1,719
Promissory notes	–	49
	<u>1,161</u>	<u>1,768</u>

6. TAX

	(Unaudited)	
	For the six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Current – Outside Hong Kong	1,099	1,809
Deferred tax	–	864
Total tax charge for the period	<u>1,099</u>	<u>2,673</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 2004 (six months ended 30 September 2003: nil). Taxes on profits assessable elsewhere have been calculated at the rates of taxes prevailing in the countries in which the Group operates, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	(Unaudited)	
	For the six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Profit before tax	<u>6,545</u>	<u>19,545</u>
Tax at the applicable tax rate	3,862	5,326
Preferential statutory rate offered	(5,743)	(3,944)
Companies with tax losses	1,888	1,176
Income not subject to tax	(233)	(1,009)
Expenses not deductible for tax	<u>1,325</u>	<u>1,124</u>
Tax charge at the Group's effective rate	<u>1,099</u>	<u>2,673</u>

The applicable tax rate is calculated based on the Hong Kong Profits Tax rate of 17.5% (six months ended 30 September 2003: 17.5%), the flat rate of Malaysian income tax of MYR20,000 per annum (six months ended 30 September 2003: MYR20,000 per annum) and the statutory corporate income tax rate and preferential tax rate in the PRC of 33% (six months ended 30 September 2003: 33%) and 18% (six months ended 30 September 2003: 18%) respectively.

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC, and the relevant tax authorities have granted the enterprises a preferential CIT rate of 18%.

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to a profit tax rate of a lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. Certain of the Group's subsidiaries, which were operated in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum.

7. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the period (six months ended 30 September 2003: 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\$7,012,000 (six months ended 30 September 2003: HK\$13,281,000) and the weighted average of 2,290,000,000 (six months ended 30 September 2003: 2,290,000,000) ordinary shares in issue during the period.

Diluted

Diluted earnings per share for each of the six months ended 30 September 2003 and 2004 have not been calculated as no dilutive events existed during each of 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 is generally for a period of 120 days, extending up to one year for major customers. 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.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	HK\$'000	HK\$'000
Within 90 days	78,167	58,221
91 to 180 days	12,330	22,932
181 to 365 days	15,078	17,866
1 to 2 years	8,005	6,997
Over 2 years	4,653	5,086
	118,233	111,102
Less: Provision for bad and doubtful debts	(16,607)	(18,989)
	101,626	92,113

10. DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	(Unaudited) At 30 September 2004	(Unaudited) Maximum amount outstanding during the period	(Audited) At 31 March 2004
	HK\$'000	HK\$'000	HK\$'000
Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow")	-	9,171	9,171

Shanghai Biowindow was a related company of the Group in which both Dr. Mao Yu Min and Dr. Xie Yi have beneficial interests and are directors. The amount bore interest at 2% per annum for the period up to 30 June 2004 and at 5% per annum thereafter. Furthermore, the amount was guaranteed by Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow").

Pursuant to several debt transfer agreements entered into among the Group, Shanghai Biowindow and Bioraise High-Tech Investment Ltd., Shanghai (“Bioraise”), the total amount due from Bioraise of HK\$9,171,000 represented advances made by certain subsidiaries of Gene Generation Limited (“GGL”) to finance the business activities of Bioraise, was taken up by Shanghai Biowindow during the year ended 31 March 2004. The amount due from Shanghai Biowindow was fully settled during the period ended 30 September 2004.

11. CASH AND BANK BALANCES

At 30 September 2004, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$13,637,000 (31 March 2004: HK\$41,987,000). RMB is not freely convertible into other currencies. However, under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

12. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date is as follows:

	(Unaudited) At 30 September 2004 <u>HK\$’000</u>	(Audited) At 31 March 2004 <u>HK\$’000</u>
Within 90 days	7,628	13,052
91 to 180 days	66	–
181 to 365 days	–	–
1 to 2 years	–	11
	<u>7,694</u>	<u>13,063</u>

13. INTEREST-BEARING BANK BORROWINGS

	(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	HK\$'000	HK\$'000
Trust receipt loans, unsecured	5,680	3,493
Bank loans, secured	41,809	41,809
	47,489	45,302

At 30 September 2004, the Group's banking facilities were supported by the following:

- (a) the pledge of the Group's fixed deposits of approximately HK\$13.2 million (31 March 2004: HK\$13.3 million);
- (b) corporate guarantees from the Company and certain subsidiaries of the Company; and
- (c) legal charges over certain leasehold land and buildings of certain subsidiaries of the Company.

14. DUE TO A MINORITY EQUITY HOLDER

The amount due to a minority equity holder was unsecured and interest-free. The balance at 31 March 2004 was repayable upon the end of the operating period of the subsidiary, which is on 25 September 2030.

15. DEFERRED TAX ASSETS

The movement in deferred tax assets arising from general provision for bad and doubtful debts during the period/year is as follows:

	(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	HK\$'000	HK\$'000
At beginning of period/year		
As previously reported	2,493	–
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	–	1,771
As restated	2,493	1,771
Deferred tax credited to the profit and loss account	–	722
	2,493	2,493
Gross and net deferred tax assets at balance sheet date	2,493	2,493

The Group has tax losses arising in Hong Kong of approximately HK\$640,000 (31 March 2004: HK\$382,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Group companies that have been loss-making for some time.

At 30 September 2004, there was no significant unrecognised deferred tax liability (31 March 2004: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entity as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

16. SHARE CAPITAL

	(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	HK\$'000	HK\$'000
<i>Authorised:</i>		
20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
<i>Issued and fully paid:</i>		
2,290,000,000 ordinary shares of HK\$0.01 each	22,900	22,900

17. CONTINGENT LIABILITIES

- (a) As at 30 September 2004, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$54,828,000 (31 March 2004: HK\$57,079,000) as at the balance sheet date.
- (b) The Group has no bills discounted with recourse as at 30 September 2004. As at 31 March 2004, the Group had bills discounted with recourse of approximately HK\$30,543,000.
- (c) During the year ended 31 March 2004, there was a judgement made by 上海仲裁委員會 (Shanghai Arbitration Committee) (the "Arbitration Committee") against Shanghai Biostar Genechip, Inc. ("Shanghai Biostar"), a 27.2% owned subsidiary of the Company, in relation to a claim of approximately RMB21,155,000 (approximately HK\$19,958,000) made by the Group's jointly-controlled entity, Bioword Genechips, Inc. ("Bioword"), in respect of an alleged breach of agreement in respect of an assignment of a technical knowhow (the "Agreement") to Bioword in 2001. Bioword claimed that Shanghai Biostar had not properly transferred the technical knowhow according to the terms of the Agreement and requested Shanghai Biostar to refund the consideration and pay the penalty and arbitration charges in aggregate of RMB21,155,000.

The directors consider that Shanghai Biostar has valid ground to defend against the claim. Accordingly, Shanghai Biostar filed an application to 上海市第一中級人民法院 (Shanghai No. 1 Intermediate People's Court) (the "First Court") in March 2004 to revoke the original judgement made by the Arbitration Committee. However, the First Court rebutted the application in May 2004.

In April 2004, Shanghai Biostar received a judgement from 上海市盧灣區人民法院 (Shanghai Luwan District People's Court) that the chairman of Bioword will be appointed by Shanghai Biostar in accordance with the memorandum of Bioword. Thus, the directors consider that the management dead-lock on Bioword will be resolved and the legal claim filed by Bioword against Shanghai Biostar will be finally revoked.

In May 2004, Shanghai Biostar filed an application to 上海市第二中級人民法院 (Shanghai No. 2 Intermediate People's Court) (the "Second Court") to revoke the original judgement. The legal proceeding is still in progress up to the date of the GGL Group was disposed of by the Group.

Having considered legal counsel's advice, the directors are of the opinion that Shanghai Biostar is very likely to be supported by the Second Court. Thus, the directors consider that a provision for the claim is not necessary as at 31 March 2004 and therefore has not been made.

During the period ended 30 September 2004, Shanghai Biostar was disposed of via the disposal of the GGL Group by the Group.

18. COMMITMENTS

As at the balance sheet date, the Group had the following commitments:

	(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	HK\$'000	HK\$'000
Authorized, but not contracted for in respect of:		
Acquisition of additional equity interest in a subsidiary	—	53,000

19. OPERATING LEASE ARRANGEMENTS

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

At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	(Unaudited) At 30 September 2004	(Audited) At 31 March 2004
	HK\$'000	HK\$'000
Within one year	890	1,889
In the second to fifth years, inclusive	—	266
	890	2,155

20. CONNECTED AND RELATED PARTY TRANSACTION

In addition to the disclosures elsewhere in these interim financial statements, there was no material transaction with related party during the period ended 30 September 2004. The Group had the following material transaction with related party during the period ended 30 September 2003:

On 18 June 2003, the Group announced the proposed acquisition (the “JECF Acquisition”) of the remaining 40% equity interest in the paid-up capital of Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. (“JECF”) from Smart Phoenix Holdings Limited, the minority equity holder of JECF, for a consideration of HK\$25 million. At 31 March 2003, the Group had paid deposits of HK\$13,076,000 in respect of the JECF Acquisition. Further details of the JECF Acquisition are set out in the circular of the Company dated 9 July 2003. The JECF Acquisition was approved in a special general meeting by the shareholders of the Company dated 26 July 2003 and the remaining consideration of HK\$11,924,000 was settled during the period under review.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of The Securities and Futures Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong, as recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

1. Long positions in ordinary shares of the Company

Name of director	Notes	Number of shares held and capacity			Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporations	Total	
Mao Yu Min	(a)	–	680,000,000	680,000,000	29.7
Xie Yi	(a)	–	680,000,000	680,000,000	29.7
Ho Yu Ling	(b)	–	102,000,000	102,000,000	4.5
Li Qiang		15,000,000	–	15,000,000	0.7

Notes:

- (a) JNJ Investments Ltd. ("JNJ Investments"), Fudan Pharmaceutical Limited ("FPL"), Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") own 500,000,000, 30,000,000, 74,000,000 and 76,000,000 ordinary shares of the Company respectively. The entire issued share capital of JNJ Investments and an 80% interest in FPL are owned by HK Biowindow, which in turn is 99.01% owned by United Gene Holdings Limited ("United Gene") and 0.99% owned by Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow").

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.

The capital of Shanghai Biowindow is 60% owned by United Gene, 13.575% owned by Dr. Xie Yi ("Dr. Xie") and 13.575% owned by Ms. Sheng Xiao Yu, who is the spouse of Dr. Mao Yu Min ("Dr. Mao"). The capital of United Gene is 33.5% beneficially owned by Dr. Mao and 33.5% beneficially owned by Dr. Xie. Dr. Mao and Dr. Xie are each deemed to be interested in 680,000,000 ordinary shares of the Company by virtue of their interests in United Gene.

- (b) These shares are 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. Long positions in shares/equity derivatives of associated corporations

Name of director	Name of associated corporation	Relationship with the Company	Types of share/equity derivatives	Numbers of shares/equity derivatives held	Capacity	Percentage of the associated corporation's issued share capital/paid-up capital
Ho Chin Hou	Extrawell Enterprises Limited	Company's subsidiary	Non-voting deferred shares	100,000 shares (note (a))	Through a controlled corporation	100% of the non-voting deferred shares
Ho Yu Ling	Extrawell Enterprises Limited	Company's subsidiary	Non-voting deferred shares	100,000 shares (note (a))	Through a controlled corporation	100% of the non-voting deferred shares

Notes:

- (a) Extrawell Holdings Limited ("EHL"), a related company of the Group, owns 100,000 non-voting deferred shares of HK\$10 each in Extrawell Enterprises Limited. Messrs. Ho Chin Hou and Ho Yu Ling owned as to 55.6% and 41.6% of EHL.

Save as disclosed above, at 30 September 2004, none of the directors had registered an interest or short position in the shares, and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the 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 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company

Name	Capacity	Number of shares held	Percentage of the Company's issued share capital
United Gene	Through controlled corporations	680,000,000	29.7
HK Biowindow	Directly beneficially owned	74,000,000	3.2
	Through controlled corporations	530,000,000	23.2
		604,000,000	26.4
JNJ Investments	Directly beneficially owned	500,000,000	21.8

Note:

United Gene was deemed to be interested in 680,000,000 ordinary shares of the Company by virtue of its interest in JNJ Investments, FPL, HK Biowindow, Fudan Biotech, Shanghai Biowindow and Shanghai Fudan Biotech. HK Biowindow was deemed to be interested in 530,000,000 ordinary shares of the Company by virtue of its interest in JNJ Investments and FPL. These interests have also been included in the interests of Dr. Mao and Dr. Xie through controlled corporations as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of the current financial year from 1 April to 30 September 2004, we faced with challenges as well as growth opportunities. We have taken swift moves to cease gene development research in July this year. We have directed resources to focus on research and development of oral insulin, which we believe to have much higher growth potential. In addition, we are in the process of establishing production base for future commercialisation of oral insulin. For the first half of the financial year, financial performance of different sectors are mixed with strong double-digit growth in the sales of imported pharmaceutical sector but significant slow down in the manufactured pharmaceutical sector and the gene development sector.

Decrease in Turnover

The consolidated turnover of the Group for the first six months ended 30 September 2004 was approximately HK\$94 million, same as last year.

This mild drop of sales was attributable to strong increase in sales of imported pharmaceutical sector, but significant decrease in sales of manufactured pharmaceutical sector and the decrease in the revenue of the gene development sector.

Strong Growth in Sales of Imported Pharmaceuticals Sector

Sales of imported pharmaceutical products climbed by 62%, from approximately HK\$42 million for the last interim period from 1 April to 30 September 2003 to approximately HK\$68 million for the current interim period from 1 April to 30 September 2004.

Our committed sales team quickly responded to the demand shortages in the recovering market with proactive and intensified marketing activities for our imported central nervous system and hypertension pharmaceuticals.

Drop in Revenue of Manufactured Biological Drugs

Sales of manufactured pharmaceutical products experienced a significant drop from approximately HK\$51 million in the last interim period from 1 April to 30 September 2003, to approximately HK\$25 million as compared to the corresponding period, representing 51% drop.

The significant drop in turnover of our manufacturing sector was due to a temporal sales team re-alignment to develop new geographical areas with high growth potential. We witnessed a significant slowdown due to the onslaught of new competitors in the market with aggressive promotional activities that affected our market share for the first half of the year. We believe the situation is temporal and have intensified our customer retention and loyalty campaigns and make more brand reminders on the proven efficacy of our products. The lower profit margin is mainly due to higher costs of production as a result of increased raw materials prices. Our tax holiday to enjoy preferential profits tax rate of 15% has expired and our current applicable rate of profits tax has increased to 18%, which has contributed partly to our lower profits.

Contributions from Gene Development Sector

Sales in the gene development sector were approximately HK\$1 million for the current interim period, representing a 50% drop as compared to the corresponding period in the last year. In view of the slow pickup of the Gene Development Sector, the Group has decided to dispose our interests in Gene Generation Limited. Gene Generation Limited and its subsidiaries are a group of companies responsible for manufacturing and sales of gene chip products.

Drop in Gross Profit and Profit Margin

Gross profit for 2004 interim period was approximately HK\$30.7 million, representing a 26% drop as compared to the approximately HK\$41.4 million in the 2003 interim period. The drop in gross profit is due to decrease in sales from manufactured pharmaceutical sector and gene development sector.

Profit from operating activities has decreased by 64% from approximately HK\$21.3 million in 2003 to approximately HK\$7.7 million in the current interim period. Profit margin has decreased from 23% in 2003 interim period to 8% in the current interim period.

The drop in profit from operating activities and margins from segmental results are due to decrease in gross profits, and increase in sales and distribution expenses and administrative expenses.

Surge in Profit for Imported Pharmaceutical Sector

Segment result from imported pharmaceutical sector has increased from approximately HK\$3.5 million in 2003 to approximately HK\$11.4 million in the current interim period, representing a significant increase of approximately HK\$7.9 million.

The sharp increase is attributable to our speedy recovery from down turns during the SARS outbreak in April to June 2003 which had caused significant slow-down of our normal selling activities. Significant idle costs was incurred in the last interim period. The condition has resumed to normal in the current period.

Decrease in Profit and Profit Margin for Manufacturing Sector

Segment results from manufacturing products drop significantly from approximately HK\$18.6 million in the 2003 interim period to approximately HK\$1.2 million, representing lower segment profit for 2004 of approximately HK\$17.4 million.

Subsequent to SARS outbreak, the high profitability of manufacturing similar products with effect of promotion of human immune system has attracted large number of new competitors in the market. P-Transfer Factor, our major profit earner, has experienced lower sales and gross profit margin. In response to the market condition, our proactive management adjusted our marketing strategies swiftly to strengthen our brand loyalty. Our efforts have been successful and our current market share has been gradually recovering. We believe the recovery will contribute to the performance of the second half of year.

Losses in Gene Development Sector

The Group has recorded a loss of approximately HK\$3.2 million in the current interim period as compared to operating profit of approximately HK\$1.6 million in the corresponding interim period last year. In view of slower market demand, our development team in Shanghai slowed down the pace on the research and development of genomic products and bio-pharmaceutical research. The loss incurred in the Gene Development Sector was due to the amortisation of intangible assets, which did not impact cash flow position.

Subsequent to the year end, on 3 August 2004, the board announced the disposal of the Group's entire interests in Gene Generation Limited for a consideration of HK\$28 million.

The Group has made an one-off provision of approximately HK\$60 million in respect of the impairment of assets owned by Gene Generation Limited in the year ended 31 March 2004.

Decrease in Net Profit

Net profit for the Group for the interim period from 1 April to 30 September 2004 was approximately HK\$7.0 million, representing a significant drop of 47% comparing to the net profit of approximately HK\$13.3 million in the corresponding interim period last year.

Decrease in net profit is mainly due to decrease in sales in manufactured pharmaceutical sector and gene development sector as well as increase in sales and distribution expenses and administrative expenses.

OUTLOOK

Promotion of Awareness of Our Products

The Group will continue to organise more aggressive seminars for medical practitioners to promote the efficacy and the cost effectiveness of P-Transfer Factor in improving the human immune system to defend against SARS this winter.

In addition to the traditional prescription markets of hospitals and clinics, the Group now focus to develop over-the-counter sales through local pharmacies. Our marketing activities include brand awareness and product efficacy promotions. Driven by the increasing proportion of over-the-counter sales, our manufactured pharmaceuticals are expected to grow in the coming years.

For our Imported Pharmaceuticals Sector, the efficacy of GM-1 on re-establishing functional recovery of central nervous system structures is well-recognised as a result of our marketing and promotion activities in recent years. Currently, in the PRC market, there are a limited number of products that are effective for the treatment of central nervous system. We believe that there are great potential in this market. We are planning to launch a number of sizeable multi-centre clinical trials with well-recognised hospitals and medical experts in the PRC. We expect that intensified academic research of the efficacy of GM-1 will be well-recognised by local medical experts and thus creating new demand and increase overall sales volume.

New Products in the Pipeline

Our long-term success depends on our ability to continue to discover and develop innovative pharmaceutical products either through acquiring or collaborating on compounds currently developed by other biotechnology or pharmaceutical companies. In recognition of our strong marketing and distribution network in the PRC, we have recently signed distribution agreement with Chemigroup France S.A to distribute Skin-cap in the PRC market. Skin-cap Spray is well-recognised internationally of effective and rapid treatment for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and tinea. It relieves itching, eliminates the flaking of the skin and scalp and improves the appearance of the skin.

The subsidiaries located in Changchun now emerged in research and development of a number of products relating to central nervous system and cardiovascular system. We believe the broad application of these products will generate attractive market potential.

In January 2004, we announced our collaboration arrangement to jointly develop and commercialise oral insulin. We expect the acquisition will create synergies to improve our future profitability.

With the narrowing of the technical gap between PRC and overseas manufacturers, we have equipped ourselves with Good Manufacturing Practices (“GMP”) compliant factory in Changbaishan JV. We have acquired the entire equity interests last year for possible manufacturing of oral insulin in the market once the clinical trials are satisfactorily completed. The Group’s two major production bases in Changchun are already in compliance with GMP requirements.

Looking ahead, we will continue to focus our resources and efforts on our core therapeutic areas and to strengthen our business focus on the research and development in the new diabetic area.

With the disposal of the Gene Generation Limited Group of companies, we hope to carry a more focused business portfolio with research and development efforts in areas with higher investment potential, like those of oral insulin. We are confident that the growth potential from our recent investments undertaken will be realised in the coming years.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2004, the Group had 355 employees (31 March 2004: 369). Staff costs for the six months ended 30 September 2004 amounted to approximately HK\$7.9 million (six months ended 30 September 2003: HK\$7.4 million).

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 share option scheme (the “Scheme”) by the Company. The 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 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 2004, its principal bankers are Industrial and Commercial Bank of China (Asia) Limited, Malayan Banking Berhad, The Bank of East Asia, Limited, Dah Sing Bank, Limited and DBS Bank (Hong Kong) Limited.

As at 30 September 2004, the Group's had bank borrowings of approximately HK\$47.5 million (31 March 2004: HK\$45.3 million), representing a 5% increase from that of 31 March 2004. All those bank borrowings are interest-bearing at the prevailing market rates and repayable within one year or on demand. As at 30 September 2004, the gearing ratio was 0.07 (31 March 2004: 0.09), calculated based on the Group's total bank debts of approximately HK\$47.5 million (31 March 2004: approximately HK\$45.3 million) over the Group's total assets of approximately HK\$660 million (31 March 2004: approximately HK\$530.3 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 Group's banking facilities were supported by the pledge of the Group's fixed deposits of approximately HK\$13.2 million (31 March 2004: approximately HK\$13.3 million); corporate guarantees from the Company and certain of its subsidiaries; and legal charges over certain leasehold land and buildings of certain subsidiaries of the Company.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2004, 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 Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2004.

MEMBERS OF THE BOARD

As at the date hereof, the members of the board are as follows:

Executive directors:

Dr. Mao Yu Min
Mr. Ho Chin Hou
Mr. Ho Yu Ling
Mr. Li Qiang
Dr. Xie Yi

Independent non-executive directors:

Mr. Fang Lin Hu
Mr. Xue Jing Lun
Ms. Jin Song

By Order of the Board
Extrawell Pharmaceutical Holdings Limited
Mao Yu Min
Chairman

Hong Kong, 16 December 2004