(A) BUSINESS REVIEW

Overall performance this year

In the past financial year, we have been facing challenges brought by the changing market conditions. In response to such challenges, the management has made speedy response and decisive moves to preserve the financial resources of the Group and to regain our market share of our immunological products, P-Transfer Factor manufactured in Changchun Extrawell.

Total turnover for the year ended 31 March 2005 was about HK$170.0 million, representing a decrease of the 21.3% from the turnover of about HK$215.6 million for the year ended 31 March 2004. The overall decrease of turnover of the Group was attributable to the mixed results from different sectors. The sales contribution from gene development sector has been down by HK$2.5 million and the sales of self-manufactured products has been down by HK$44.6 million while our imported pharmaceutical sector has recorded growth of HK$1.2 million, representing 0.9% growth as compared to previous financial year.

Imported Pharmaceuticals Sector

Turnover for the imported pharmaceutical sector increased for about 0.9% from about HK$128.6 million last year to HK$129.7 million this year. Segment operating profit is HK$26.6 million, representing a decline of operating profit by 14.2% comparing to the segment results for the financial year ended 31 March 2004. In 2005, GM-1, our major product in the Central Nervous System (CNS) areas, continues to recover from the Severe Acute Respiratory Syndrome ("SARS") period and post SARS period pharmaceutical market turbulence in the PRC market. During the year, our products faced intense competition and market disturbance brought by counterfeit products and low-costs, but low quality replica in the market. To confront the challenge, the management have staged swift proactive and intensified marketing activities stressing on our product quality and reliability. Sales have been recovered with mild increment while margins have been slightly hampered by the effect of increased marketing and promotional expenditures.

Over the years, GM-1 has shown signs of steady growth as more PRC pharma-medical professionals and academia have gradually got to know and recognize its significant efficacy over patients who suffered from central nervous system damages.

Manufactured Pharmaceutical Sector

Turnover of manufactured pharmaceutical sector dropped significantly from about HK$83.6 million for the year ended 31 March 2004 to about HK$39.0 million for the year ended 31 March 2005, representing a decrease of 53.3%. We have recorded a segment loss of HK$14.4 million in segment results this year.

The substantial decrease was due to the lower sales volume and price cut of P-Transfer Factors during the last four months in 2004. Subsequent to the SARS trauma, the PRC pharmaceutical market was flooded with large amount of immunity drugs and health care products and low price replica of similar functions, resulted from the sharp fall in demand from the high point during SARS period and over expansion of our competitors during the SARS periods. Sales have been declined and margins been squeezed during that period.

Nevertheless, we managed to regain our grounds in 2005. We addressed our product and market risk through persistent effort of quality assurance and reliance on our strong marketing networks and dedicated and responsive sales team. Intensified marketing effort were coupled with significant discounts offered to our customers to retain their loyalty. Despite significant improvement achieved in the recovery of sales in 2005, margins have been eroded, which resulted in a segment operating loss in this sector.

As the PRC pharmaceutical market is getting more mature and more systematically regulated, we believe that products with inferior quality and low level of customer loyalty will gradually fade out in the long race to become the market leaders.

Gene Development Sector

Due to the slow down of the gene market and the disposal of a group of loss making subsidiaries in the gene development sector early this year, turnover of the sector dropped from about HK$3.5 million last year to about HK$1.0 million this year, representing a decline of 71.5% in sales. Segment results reported significant loss of HK$88.6 million, which is mainly due to a HK$80.0 million on one time non cash charge of impairment of intangibles.

In view of slow down of this sector so far and the unfavourable market environment, we have decided to stop further investment in the gene development sector. This is to divert our financial resources to strengthen and elevate our growth-intensive research and development activities and our core business. The management has taken a conservative evaluation of the future prospects of this sector and decided to make full provision for the intangible assets in this sector. We make decisions based on facts, but decisive judgment and visionary insights are necessary as these future-orientated research and development activities are very often associated with financial as well as technological risks and uncertainties.

Operating Results

The gross profit margin of the Group decreased from 37% for the year ended 31 March 2004 to 27% for the year ended 31 March 2005, representing a drop of 10%, which is mainly due to the decrease in gross profit margin of both self-manufacturing sector and the imported pharmaceutical sector.

Apart from the one-off impairment provision of our intangible assets of about HK$80.0 million (2004: impairment provision of intangible assets of HK$60.0 million) we recorded an net profit of about HK$4.2 million this year. The decrease in net profit of HK$90.5 million represented a decline of about 618.1% as comparing to last year.

For the first time in the history of our Group, we recorded a net loss of HK$75.8 million. Nevertheless, with the year of cut-throat competition and difficult decisions behind us, we have made a turn for the better. Strong signs of recovery in sales and profit margins were reported in the first quarter of 2005.

(B) OUTLOOK AND NEW DEVELOPMENT

Progress of our Research and Development on Oral Insulin

Oral Insulin is jointly developed by the Department of Bio-engineering of Tsinghua University and Fosse Bio-Engineering Development Ltd ("Fosse Bio"). After close examination, the State Food and Drug Administration (SFDA) has granted permission to perform Phase I and Phase II clinical trials on oral insulin in July 2003.

Phase I clinical trial:

Phase I clinical trial was undertaken at the State Drug Administration Base for Drug Clinical Trial of Beijing Xiehe Hospital (hereinafter referred to as "Xiehe Hospital") under the Chinese Academy of Medical Science between October 2003 and February 2004. The clinical trial was undertaken at a random and alternate basis and a comparison of the test results will be made. Healthy volunteers are required to receive 20 treatments on oral insulin and subcutaneous insulin infusions alternatively (i.e. a total of 40 doses), and the results will be verified by glucose clamp technique (葡萄糖鉗夾技術), the most authoritative and objective method. The results show that, notwithstanding the oral insulin has first reached liver, the target organ, before delivered to the peripheral blood, the relative bioavailability of oral insulin at peripheral blood still reaches a level of 7.42±3.25%. The relative bioavailability as shown in the clinical trial remained to be 24.78±8.10%

The results of Phase I clinical trial shows that the oral insulin is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is safe in application. With the positive results shown in the Phase I clinical trial, the oral insulin will proceed to Phase II clinical trial.

Phase II clinical trial:

With the diabetics patients being the target, the Phase II clinical trial aims at verifying the medical effects of the oral insulin in bringing down the glucose level of diabetics and the safety in application and such trial involves a variety of testing and comparison made on random basis. From October 2004, the clinical trial has been undertaken in five medical centers, namely Beijing Xiehe Hospital, Beijing Tongren Hospital, the First Clinical Hospital, China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong Medical University, Jinan, under the leadership of Beijing Xiehe Hospital. Each center will admit 48 to 60 patients and will make comparison on the treatment of the oral insulin and subcutaneous insulin infusions.

All patients in Phase II trial suffered from type II diabetes that cannot be cured through regulating diets and taking oral hypoglycemic drugs. Patients who take part in our test will be subjected to the treatment of the oral insulin or subcutaneous insulin infusions for 12 weeks under the continual application of existing medical treatment. The test will examine the change in the level of fasting glucose, postprandial glucose and HbA1c on the patients, as well as the effect on heart, liver, kidney, blood and bio-chemistry to define the safety level of the drugs being tested.

According to the above indications generated from the patients participated in our test, the oral insulin produces a satisfactory effect on lowering the level of glucose and HbA1c (for patients completed the entire test process). It is shown that patients have similar improvement in terms of the above indications as compared with patients who are subjected to subcutaneous insulin infusions treatment.

The selection of patients participated in our test was completed in May of this year. Each patient is subjected to an observation period of 12 weeks until the end of August this year. There are a total of 300 patients selected for the test, and the final test results will be based on the number of patients who have completed the entire test process. By now, around 70% of the patients have already completed the entire test process.

Subsequent work of Phase II clinical trial includes the input and compilation of test data, statistical analysis, and preparation of different reports. And the final stage work would be the submission for SFDA's approval. The management expects that this unprecedented products will bring along munificent profit into the Group in the near future.

Outlook

We expect the PRC pharmaceutical market will continue on a rapid expansionary course, albeit at a slower pace for the time being due to the market disorder and over expansion of production capacity. However, we will continue to focus on our core competency and invest in high growth potential research and development and products.

The significant progress of the oral insulin is encouraging. We have strong expectation in the growth potential and future profitability of this product. We anticipate completing the clinical trials and commencing the commercialization of the oral insulin next year. We are confident that with the launch of this product, both the sales and profitability of the Group will be significantly improved.

(C) FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2005, the Group had total cash and bank balances of about HK$70.5 million (2004: HK$83.9 million).

As at 31 March 2005, the Group had bank borrowings of about HK$37.5 million (2004: HK$45.3 million), representing a 17% decrease from that at 31 March 2004. All these bank borrowings are repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$12.2 million (2004: HK$13.3 million), corporate guarantees from the Company and certain subsidiaries of the Company, and legal charges over leasehold land and buildings of certain subsidiaries of the Company.

Included in the amount due to minority shareholder of about HK$32.4 million was an amount of about HK$31.8 million which is a payable acquired during our acquisition of a subsidiary, Smart Ascent Limited ("SAL"). This payable was representing the outstanding consideration payable by SAL during its acquisition for its subsidiary, Fosse Bio. Since the Vendors of SAL by contract has agreed to assume these liabilities when they fall due, a receivable of the equivalent amount was included in "Prepayment, deposits and other receivable" under current assets. Accordingly, the said amount due to a minority shareholder did not have any impact to the net current asset position nor the future cash flow of the Group and the amount was excluded in calculating the Groups' gearing ratio.

The Group's gearing ratio as at 31 March 2005 was 0.06 (2004: 0.09), calculated based on the Group's total debts of HK$38.1 million (2004: HK$45.3 million), comprising bank borrowings of about HK$37.5 million (2004: HK$45.3 million) and due to a minority shareholder of about HK$0.6 million (2004: nil), over the Group's total assets of about HK$591.3 million (2004: HK$530.3 million).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollar, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year.

Contingent Liabilities

(a) As at 31 March 2005, 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 about HK$43,018,000 (2004: HK$57,079,000) as at the balance sheet date.

(b) As at 31 March 2005, the Group had bills discounted with recourse of about HK$25,033,000 (2004: HK$30,543,000).

(c) As at 31 March 2005, the Company had provided corporate guarantees in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary will duly observe the terms and pay the monies, being the total rental expenses management fee and utility charge of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the subsidiary during the year.

At 31 March 2005, the Group's banking facilities were supported by the following:

(a) the pledge of the Group's fixed deposits of HK$12,204,000 (2004: HK$13,305,000);

(b) corporate guarantees from the Company and certain subsidiaries of the Company; and

(c) legal charges over the leasehold land and buildings of certain subsidiaries of the Company.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2005, the Group had 350 employees (2004: 369). Staff costs excluding directors remuneration for the year ended 31 March 2005 amounted to approximately HK$17.4 million (2004: HK$18.9 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.

The Group remunerates its employees including directors according to their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits includes mandatory provident fund, insurance, and medical coverage, training and share option scheme.

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.