Extrawell Pharmaceutical Holdings Limited

incorporated in Bermuda with limited liability

Interim Report 2005

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The board of directors (the "Directors") of Extrawell Pharmaceutical Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005. A summary extract of this interim financial report is published in a press announcement dated 16 December 2005.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 September 2005	(Audited) At 31 March 2005
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		65,664	68,971
Leasehold land and land use rights		15,217	15,109
Intangible assets		288,220	288,454
Goodwill		5,151	5,151
Deferred tax assets	*2*	1,246	1,246
		375,498	378,931
CURRENT ASSETS			
Inventories		15,619	15,691
Accounts receivable	*3*	71,764	73,804
Prepayments, deposits and other receivables		55,954	51,383
Due from minority shareholders	*8*	8	8
Tax recoverable		–	932
Pledged bank deposits		7,140	12,204
Cash and bank balances	*4*	34,083	58,337
		184,568	212,359
TOTAL ASSETS		560,066	591,290
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Issued capital	*5*	22,900	22,900
Reserves		253,777	249,969
		276,677	272,869
Minority interests		221,787	220,609
TOTAL EQUITY		498,464	493,478
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*2*	102	102
		102	102
CURRENT LIABILITIES			
Accounts and bills payable	*6*	4,369	7,319
Tax payable		958	368
Accrued liabilities and other payables		17,771	20,153
Interest-bearing bank borrowings	*7*	5,998	37,466
Due to a minority shareholder	*8*	32,404	32,404
		61,500	97,710
TOTAL EQUITY AND LIABILITIES		560,066	591,290
NET CURRENT ASSETS		123,068	114,649
TOTAL ASSETS LESS CURRENT LIABILITIES		498,566	493,580

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the six months ended 30 September 2005 HK$'000	2004 HK$'000
TURNOVER	*9*	**70,462**	94,447
Cost of sales		**(47,110)**	(63,733)
GROSS PROFIT		**23,352**	30,714
Other revenue		**445**	675
Selling and distribution costs		**(7,061)**	(6,048)
Administrative expenses		**(11,449)**	(13,497)
Other operating expenses		**(2,000)**	(4,138)
PROFIT FROM OPERATING ACTIVITIES	*11*	**3,287**	7,706
Finance costs	*12*	**(848)**	(1,161)
PROFIT BEFORE TAX		**2,439**	6,545
Income tax	*13*	**(542)**	(1,099)
PROFIT FOR THE PERIOD		**1,897**	5,446
Attributable to:			
Equity holders of the Company		**719**	7,012
Minority interests		**1,178**	(1,566)
		1,897	5,446
DIVIDEND	*15*	**–**	–
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD (expressed in HK cents per share)	*14*		
– Basic		**HK0.03 cent**	HK0.31 cent
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Issued share capital	Share premium account	Capital reserve	Contributed surplus	Retained profits	Exchange reserve	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2004, as previously reported as equity (audited)	22,900	133,717	6,116	4,839	181,120	–	–	348,692
At 1 April 2004, as previously reported as minority interests (audited)	–	–	–	–	–	–	74,566	74,566
At 1 April 2004, as restated (audited)	22,900	133,717	6,116	4,839	181,120	–	74,566	423,258
Net profit for the period (unaudited)	–	–	–	–	5,446	–	–	5,446
Share of losses by minority interests and disposal of subsidiaries (unaudited)	–	–	(1,639)	–	1,566	–	(53,947)	(54,020)
Acquisition of subsidiaries (unaudited)	–	–	–	–	–	–	205,719	205,719
At 30 September 2004 (unaudited)	22,900	133,717	4,477	4,839	188,132	–	226,338	580,403
At 1 April 2005, as previously reported as equity (audited)	**22,900**	**133,717**	**4,476**	**4,839**	**106,937**	**–**	**–**	**272,869**
At 1 April 2005, as previously reported as minority interests (audited)	**–**	**–**	**–**	**–**	**–**	**–**	**220,609**	**220,609**
At 1 April 2005, as restated (audited)	**22,900**	**133,717**	**4,476**	**4,839**	**106,937**	**–**	**220,609**	**493,478**
Exchange differences (unaudited)	**–**	**–**	**–**	**–**	**–**	**3,089**	**–**	**3,089**
Net profit for the period (unaudited)	**–**	**–**	**–**	**–**	**1,897**	**–**	**–**	**1,897**
Share of net profit by minority interests (unaudited)	**–**	**–**	**–**	**–**	**(1,178)**	**–**	**1,178**	**–**
At 30 September 2005 (unaudited)	**22,900**	**133,717**	**4,476**	**4,839**	**107,656**	**3,089**	**221,787**	**498,464**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30 September	
	2005	2004
	HK$'000	HK$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**4,094**	(14,974)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**11,108**	(26,035)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	**(32,307)**	1,026
DECREASE IN CASH AND CASH EQUIVALENTS	**(17,105)**	(39,983)
Cash and cash equivalents at beginning of period	**58,328**	70,634
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**41,223**	30,651
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**34,083**	23,621
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	**7,140**	7,030
	41,223	30,651

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 2005, except that the Group adopted the new/revised standards and interpretations of Hong Kong Financial Reporting Standards ("HKFRS") as set out below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS-Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 14, 16, 21, 24, 27, 33, 34 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 14, 16, 27, 33, 34 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

1. BASIS OF PREPARATION *(continued)*

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of revised HKAS 17 resulted in:

	(Unaudited) 30 September 2005	(Unaudited) 31 March 2005
	HK$'000	HK$'000
Increase in leasehold land and land use rights	**15,217**	15,109
Decrease in property, plant and equipment	**(15,217)**	(15,109)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period ranging from 5 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1 April 2005;

– Accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ending 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

1. BASIS OF PREPARATION *(continued)*

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

– HKFRS 3 – prospectively after 1 January 2005.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with HKFRS under the historical cost convention, as modified by the revaluation of leasehold land and land use rights and buildings, and have been prepared in accordance with HKAS 34 "Interim Financial Reporting".

2. DEFERRED TAX

The movements in deferred tax liabilities and assets during the period are as follows:

Deferred tax liabilities arising from accelerated tax depreciation:

	(Unaudited)
	HK$'000
At beginning of period	102
Deferred tax charged to the profit and loss account	–
Gross and net deferred tax liabilities at 30 September 2005	102

Deferred tax assets arising from general provision for bad and doubtful debts:

	(Unaudited)
	HK$'000
At beginning of period	1,246
Deferred tax credited to the profit and loss account	–
Gross and net deferred tax assets at 30 September 2005	1,246

The Group has tax losses arising in Hong Kong of approximately HK$6,202,000 (31 March 2005: HK$5,540,000) 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 2005, there was no significant unrecognised deferred tax liability (31 March 2005: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries 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 equity holders.

3. 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 reviewed regularly by senior management.

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

	(Unaudited) At 30 September 2005	(Audited) At 31 March 2005
	HK$'000	HK$'000
Within 90 days	**42,939**	48,512
91 to 180 days	**16,464**	15,346
181 to 365 days	**10,679**	8,999
1 to 2 years	**7,018**	7,037
Over 2 years	**3,970**	3,041
	81,070	82,935
Less: Provision for bad and doubtful debts	**(9,306)**	(9,131)
	71,764	73,804

4. CASH AND BANK BALANCES

At 30 September 2005, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$12,548,000 (31 March 2005: HK$27,606,000). 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.

5. ISSUED CAPITAL

	(Unaudited) At 30 September 2005 HK$'000	(Audited) At 31 March 2005 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,290,000,000 ordinary shares of HK$0.01 each	**22,900**	22,900

6. 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 2005 HK$'000	(Audited) At 31 March 2005 HK$'000
Within 90 days	**4,172**	4,721
91 to 180 days	**–**	2,598
181 to 365 days	**197**	–
	4,369	7,319

7. INTEREST-BEARING BANK BORROWINGS

	(Unaudited) At 30 September 2005 HK$'000	(Audited) At 31 March 2005 HK$'000
Bank overdrafts – secured	–	9
Trust receipt loans:		
Secured	949	2,693
Unsecured	–	2,860
	949	5,553
Bank loans – secured	5,049	31,904
	5,998	37,466

At 30 September 2005, the Group's banking facilities were supported by the following:

(a) the pledge of the Group's fixed deposits of approximately HK$7.1 million (31 March 2005: HK$12.2 million);

(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.

8. DUE FROM/(TO) MINORITY SHAREHOLDERS

The amounts due from/(to) minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

9. TURNOVER

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

10. SEGMENT INFORMATION

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

	(Unaudited) Manufacturing Six months ended 30 September		(Unaudited) Trading Six months ended 30 September		(Unaudited) Gene development Six months ended 30 September		(Unaudited) Oral insulin Six months ended 30 September		(Unaudited) Consolidated Six months ended 30 September	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**20,713**	24,968	**49,749**	68,486	**–**	993	**–**	–	**70,462**	94,447
Segment results	**1,897**	1,150	**4,877**	11,384	**(1,135)**	(3,184)	**(797)**	–	**4,842**	9,350
Interest income									**445**	119
Unallocated expenses									**(2,000)**	(1,763)
Profit from operating activities									**3,287**	7,706
Finance costs									**(848)**	(1,161)
Profit before tax									**2,439**	6,545
Income tax									**(542)**	(1,099)
Profit before minority interests									**1,897**	5,446
Attributable to:										
Equity holders of the Company									**719**	7,012
Minority interests									**1,178**	(1,566)
									1,897	5,446

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

11. 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 2005	2004
	HK$'000	HK$'000
Cost of inventories sold	**47,110**	63,733
Depreciation	**2,535**	3,885
Exchange losses, net	**22**	162
Amortisation of intangible assets	**364**	2,375
Amortisation of goodwill	**–**	1,763
Deficit on revaluation of land and buildings	**2,000**	–
Loss on disposal of fixed assets and intangible assets, net	**28**	49
Interest income on bank balances	**(445)**	(119)
Gain on disposal of a group of subsidiaries	**–**	(1,555)
Bad debt provision written back	**–**	(2,382)

12. FINANCE COSTS

	(Unaudited) For the six months ended 30 September 2005	2004
	HK$'000	HK$'000
Interest expense on:		
Bank overdrafts and loans wholly repayable within five years	**848**	1,161

13. INCOME TAX

	(Unaudited) For the six months ended 30 September	
	2005	2004
	HK$'000	HK$'000
Current – Outside Hong Kong	**793**	1,099
Over-provision in prior years – Hong Kong	**(251)**	–
Total tax charge for the period	**542**	1,099

No provision for Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong. 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	
	2005	2004
	HK$'000	HK$'000
Profit before tax	**2,439**	6,545
Tax at the applicable tax rate	**(239)**	3,862
Preferential statutory rate offered	**(387)**	(5,743)
Companies with tax losses	**1,069**	1,888
Income not subject to tax	**–**	(233)
Expenses not deductible for tax	**350**	1,325
Over-provision of profits tax of prior years	**(251)**	–
Tax charge at the Group's effective rate	**542**	1,099

The applicable tax rate is calculated based on the Hong Kong profits tax rate of 17.5% (2004: 17.5%), the flat rate of Malaysian income tax of MYR20,000 per annum (2004: MYR20,000 per annum) and the statutory corporate income tax rate and preferential tax rate in the PRC of 33% (2004: 33%) and 18% (2004: 18%), respectively.

13. INCOME TAX *(continued)*

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 those subsidiaries 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 operate in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum.

14. EARNINGS PER SHARE

Basic

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to equity holders of the Company and minority interests for the period of HK$719,000 (six months ended 30 September 2004: HK$7,012,000) and the 2,290,000,000 (six months ended 30 September 2004: 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 2004 and 2005 have not been calculated as no diluting events existed during these two periods.

15. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the period (six months ended 30 September 2004: Nil).

16. CONTINGENT LIABILITIES

(a) The Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilized to the extent of approximately HK$9,711,000 as at 30 September 2005 (31 March 2005: HK$43,018,000).

(b) As at 30 September 2005, the Company provided corporate guarantee 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 charges of HK$5,078,000 (31 March 2005: 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.

(c) The Group did not have any bills discounted with recourse as at 30 September 2005 (31 March 2005: approximately HK$25,033,000).

17. 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 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 2005	(Audited) At 31 March 2005
	HK$'000	HK$'000
Within one year	**1,271**	1,292
In the second to fifth years, inclusive	**2,013**	2,649
	3,284	3,941

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17, at 30 September 2005, the Group had a commitment to advance to Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary of the Company, a shareholder of Fosse Bio (the "Fosse Vendor") from whom Smart Ascent Limited acquired (the "Fosse Acquisition") the equity interest of Fosse Bio from Fosse Vendor, and/or other shareholders of Fosse Bio for expenses relating to clinical trial of the oral insulin products. The loans so advanced can be offset against the fourth instalment of the consideration in respect of Fosse Acquisition payable in accordance with the deed of transfer entered into between Smart Ascent Limited and the Fosse Vendor in respect of the Fosse Acquisition.

19. 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 periods ended 30 September 2005 and 2004.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2005, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations within the meaning of Part XV of Securities and Futures Ordinance (the "SFO"), as recorded in the register required 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 Issuers (the "Model Code") were as follows:

1. *Long positions in ordinary shares of the Company*

		Number of shares held, capacity and nature of interest			
Name of director	Notes	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**Percentage of the Company's issued share capital**
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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

2. *Long positions in shares of associated corporations*

Name of director	Name of associated corporation	Relationship with the Company	Type of shares	Number of shares held	Capacity	Percentage of the associated corporation's issued share capital
Ho Chin Hou	Extrawell Enterprises Limited	Company's subsidiary	Non-voting deferred shares	100,000 shares (note)	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)	Through a controlled corporation	100% of the non-voting deferred shares

Note: 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. The beneficial shareholders of EHL are Messrs. Ho Chin Hou and Ho Yu Ling.

Save as disclosed above, as at 30 September 2005, 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 PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2005, 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 and nature of interest	Number of ordinary 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 and Shanghai Biowindow. 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 corporate interests of Dr. Mao and Dr. Xie as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above.

Save as disclosed above, as at 30 September 2005, no person, other than certain 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.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the six months ended 30 September 2005, except for the following deviations:

(a) Code provision A1.3 stipulates that 14 days' notice should be given for each board meeting. The Company agrees that sufficient time should be given to the board members in order to make proper decision. In these respects, the Company adopts a more feasible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

(b) Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from the above code provision as the non-executive directors of the Company are not appointed for specific terms. According to the bye-laws of the Company, however, these directors are subject to retirement and re-election. The reason for the deviation is that the Company believes that directors ought to be committed to representing the long term interest of the Company's shareholders.

(c) Code provision A4.2 stipulates that every director should subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the directors of the Company shall retire from office by rotation provided that the Chairman, Deputy Chairman or managing director shall be subject to retirement by rotation. The Company's bye-laws deviate from the code provision. The Company considered that the continuity of the Chairman/Deputy Chairman/managing director and their leadership is essential for the stability of the business and key management.

(d) Code provisions B1.1-5 stipulate the establishment of a remuneration committee, its operations and its term of reference. The Company has not set up a remuneration committee during the period under review as the function of reviewing remuneration of executive directors and senior management have already been included in the term of reference of the audit committee. Code provision 3.3 stipulates the terms of reference of the audit committee. The existing terms of reference of our audit committee do not fully cover those set out in code provision 3.3. The Company will adopt terms of reference as set out in code provision 3.3 and will set up a remuneration committee according to B1.1-5 in the near future in order to formalise the remuneration reviewing function.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conducts for securities transactions with terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Following specific enquiry made with the directors of the Company, the Company has confirmed that each of its directors has complied with the required standard set out in the Model Code regarding securities transactions by directors.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2005, we faced with challenges as well as growth opportunities. Following the swift moves to cease Gene Development research in early August last year, we invested our effort in the research and development of oral insulin this period. The financial performance of different sectors are mixed of a slight growth in the segment profit margin of manufactured pharmaceutical sector but a slow down in the imported pharmaceutical sector.

Decrease in Group's Turnover

The consolidated turnover of the Group for first six months ended 30 September 2005 was approximately HK$70.5 million, representing a drop of approximately HK$24.0 million from that of last year.

This result is composed of the overall decrease in sales of both the trading and manufacturing of the pharmaceutical sectors due to keen competitions in the markets.

Decrease in Sales of Imported Pharmaceutical Sector

Sales of imported pharmaceutical products dropped by 27.4%, from approximately HK$68.5 million for the last interim period from April to September 2004 to approximately HK$49.7 million for the current interim period from April to September 2005.

The decrease was mainly due to the changes in sales arrangements with some consumers. Previously, the customers made bulk purchases for the whole year at the beginning of the year. Under the new arrangements, instead of making bulk orders, they are now ordering in smaller lots. This arrangement will reduce the stock-up level and the Group will be more responsive to the market needs.

Decrease in Sales of Manufactured Biological Drugs

Sales of manufactured pharmaceutical products has experienced a slight drop of approximately HK$4.3 million from approximately HK$25.0 million in last interim period from 1 April to 30 September 2004, to approximately HK$20.7 million for April to September 2005, representing an approximately 17.0% drop.

The slight drop in sales of our manufacturing sector is mainly due to the adjustment in our pricing strategy. Following the onslaught of new competitors in the market last interim period, we have a further price cut this period in order to expand our sales network and build up brand recognition. With the effort of our sales team, the Directors believe that this strategy will build us a solid foundation for our new products in the pipeline and will benefit the Group as a whole in a long run.

Cease of Gene Development Sector

Due to the cease of Gene Development research last year, no sales is recorded in the Gene Development Sector for the current interim period. The decrease represented a 100% drop as compared to the approximately HK$1.0 million sales in the corresponding period in last year.

Drop in Group's Gross Profit, Operating Profit and Profit Margin

Gross profit for 2005 interim period was approximately HK$23.4 million, representing a 24.0% drop as compared to the approximately HK$30.7 million resulted in the 2004 interim period. Profit from operating activities has decreased by 57.3% from approximately HK$7.7 million in 2004 to approximately HK$3.3 million in the current interim period. Overall operating profit margin has decreased from 8.2% in 2004 interim period to 4.7% in the current interim period.

The decreases in both the gross and operating profits as well as the profit margin are mainly due to the decrease in sales contributed from imported pharmaceutical sector which caused a drop in its profit, has outweighted the increase in profit from manufacturing pharmaceutical sector.

Drop in Segment Profit and Profit Margin for Imported Pharmaceutical Sector

Segment results from imported pharmaceutical products have decreased from approximately HK$11.4 million in 2004 interim period to approximately HK$4.9 million in the current interim period, representing a 57.2% drop of approximately HK$6.5 million. The profit margin for the segment has decreased from 16.6% in last interim to 9.8% in current interim period. It is because the Group has launched promotional activities to further build up our brand recognition. The Directors believe that this investment will generate positive future profits.

Increase in Segment Profit and Profit Margin for Manufacturing Sector

The Group has recorded a slight growth in manufacturing section with the segment results from approximately HK$1.1 million in the 2004 interim period to approximately HK$1.9 million, representing a 65.0% of approximately HK$0.8 million in segmental profit for 2005 interim period. The profit margin for this sector has been picked up from 4.6% in last interim period to 9.2% in current interim period.

Despite a slightly decline in turnover of the manufacturing products, there is a steady increase on segment profit in 2005 interim period. It is because the proactive management has adjusted our marketing strategy last year by increasing advertising and promotion expenses to build up customers' loyalty which crystalised as a positive result in this interim period.

Decrease in Group's Profit Attributable to Equity Holders of the Company

Net profit for the Group for the interim period from 1 April to 30 September 2005 was approximately HK$0.7 million, representing a significant drop of approximately HK$6.3 million from the corresponding interim period last year.

Decrease in net profit is mainly due to decrease in sales in imported pharmaceutical sector as well as increase in sales and distribution costs.

Increase in Group's Sales and Distribution Costs

Sales and distribution costs has increased by approximately HK$1.1 million from approximately HK$6.0 million in last interim period to approximately HK$7.1 million in the current interim period. During this period, the Group has launched major advertising and promotion activities to promote our key selling product GM-1. Activities include academic sponsorship, international conferences, product development clinical trials in hospitals, etc have achieved at enhancing the brand recognition to the practitioners as well as medical experts. Besides, we have expanded our sales force to strengthen and capture larger market shares. We have launched of the "Three 100" marketing campaign in this interim period, i.e. (i) to increase market coverage to 100 most important Class-A hospitals; (ii) to achieve sales of 100 boxes of products per month for each hospital; and (iii) to promote 100mg daily dosage. The Directors believe that the strengthening of our hospital coverage will build a solid network which ready for lauching of our new products in the pipeline such as oral insulin, which will bring us substantial growth potential and profitability in the coming years. Therefore, it is worthwhile to trade-off short term earnings in return for long term benefits.

Decrease in Group's Administrative Expenses

Administrative expenses have decreased by approximately HK$2.1 million from approximately HK$13.5 million in last interim period to approximately HK$11.4 million in the current interim period. The decrease is mainly due to the tighter control over administrative costs and the cease of the Gene Development sector.

OUTLOOK

Promotion of Awareness of Our Products

The Group will continue to organise more aggressive seminars for medical practitioners on the efficacy and the cost effectiveness of P-Transfer Factor in improving the human immune system to defend against pandemic influenza and the possible avian flu this winter. For our own-manufactured pharmaceuticals, our target sales markets now cover prescriptions in hospitals and clinics as well as OTC sales in local pharmacies. The trend of increasing proportion of OTC sales driving the strong growth for our manufactured pharmaceuticals is expected for the coming years.

New Products in the Pipeline

Our long-term success depends on our ability to continue to discover and develop innovative pharmaceutical products. Last year we have introduced Skin-cap Spray to the PRC market which is broadly received in the market. Skin-cap Spray is internationally famous. It is the most effective and rapid treatment known today 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. We will further promote this product to the market through our strong marketing and distribution network.

Recently, we are negotiating two new products with overseas manufacturers, they are Risperidone from Germany and Pergolide from Greece. Risperidone is used for the treatment of schizophrenia and other psychotic conditions and Pergolide is a dopamine D_1 and D_2 stimulant used in adjunctive treatment with levodopa in the management of Parkinson's disease. Once we finalize the price and distribution agreement, we have to apply for Import Drug Licence in China.

In addition, oral insulin, a product in which the Group has been investing in its research and development in recent years, has completed phase II clinical trial and pre-production preparation of this product is in progress. Upon obtaining the New Product and Production Licenses, we will launch this ground-breaking product in the market swiftly.

Furthermore, the Group is planning for the production and export of new products. The extraction of Saponins and polysaccharide from Panax Quinpuefolium are ingredients with excellent curative effect and we are preparing for the export and overseas sales of these products.

Looking ahead, we will continue our focus on our key specialised areas of Central Nervous System drugs and in the area of immunology with efforts to strengthen our business focus on the research and development in the Diabetics area.

Moving on from our 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 faster return on 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 2005, the Group had 329 employees (31 March 2005: 350). Staff costs for the six months ended 30 September 2005 amounted to approximately HK$6.2 million (six months ended 30 September 2004: HK$7.9 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.

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 calibre 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 2005, 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 and DBS Bank (Hong Kong) Limited.

As at 30 September 2005, the Group had bank borrowings of approximately HK$6.0 million (31 March 2005: HK$37.5 million), representing a 84.0% decrease from that of 31 March 2005. All those bank borrowings are interest-bearing at the prevailing market rates and repayable within one year or on demand. As at 30 September 2005, the gearing ratio was 0.01 (31 March 2005: 0.06), calculated based on the Group's total bank debts over the Group's total assets.

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$7.1 million (31 March 2005: approximately HK$12.2 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.

CONTINGENT LIABILITIES

The Group did not have any bills discounted with recourse as at 30 September 2005 (31 March 2005: approximately HK$25,033,000). The Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities has been utilized to the extent of approximately HK$9,711,000 as at 30 September 2005 (31 March 2005: HK$43,018,000). The decrease was due to the decrease of bills discounted with recourse as at 30 September 2005 as well as the repayment of bank loans during the period.

Except for the above, there were no significant changes in the contingent liabilities of the Group during the period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2005, 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.

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
Mao Yu Min
Chairman

Hong Kong, 16 December 2005