



Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code : 587)

Interim Report 2005/2006

Hua
Han
Bio-Pharmaceutical

THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in gynecological medicine and medicinal healthcare products for women in the People's Republic of China.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (*Chairman*)
Mr. Xu Peng
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Wu Xian Peng

Non-Executive Directors

Mr. Wee Ee Lim
(Mr. Tarn Sien Hao as his alternate)
Mr. Han Ah Kuan
(Mr. Ong Sian Hin as his alternate)

Independent Non-Executive Directors

Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming Matthew

AUDIT COMMITTEE

Professor Kung Hsiang Fu
(*Chairman of audit committee*)
Professor Tso Wung Wai
Mr. Hon Yiu Ming Matthew
Mr. Han Ah Kuan
(Mr. Ong Sian Hin as his alternate)

REMUNERATION COMMITTEE

Professor Kung Hsiang Fu
(*Chairman of remuneration committee*)
Professor Tso Wung Wai
Mr. Hon Yiu Ming Matthew
Mr. Deng Jie
Mr. Wee Ee Lim
(Mr. Tarn Sien Hao as his alternate)

COMPANY SECRETARY

Mr. Zhu Ben Yu (*AHKICPA*)

QUALIFIED ACCOUNTANT

Mr. Zhu Ben Yu (*AHKICPA*)

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 704, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China
Guiyang Branch, Jiaxiu Sub-branch
Number 9 Xinhua Road
Guiyang, Guizhou
PRC

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place, Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

UNAUDITED INTERIM RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (“**Company**”) is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 31 December 2005 (“**Period**”) together with the comparative figures for the corresponding period in 2004 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (“**Audit Committee**”) of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended	
		31 December	
		2005	2004
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
TURNOVER	2	302,435	324,588
Cost of sales		(168,602)	(224,651)
Gross profit		133,833	99,937
Other revenue		4,981	6,913
Selling and distribution costs		(32,444)	(12,531)
Administrative expenses		(23,146)	(27,537)
Finance costs	4	(5,501)	(3,584)
Share of losses of:			
Jointly-controlled entity		–	–
Associate		–	(385)
Amortisation of goodwill on acquisition of an associate		–	(50)
PROFIT BEFORE TAX	5	77,723	62,763
Tax	6	(14,350)	(11,896)
PROFIT FOR THE PERIOD		63,373	50,867
ATTRIBUTABLE TO:			
Equity holders of the parent		61,472	50,684
Minority interests		1,901	183
		63,373	50,867
Dividend		Nil	Nil
Earnings per share			
– Basic	7	HK7.1 cents	HK7.7 cents
– Diluted	7	HK7.0 cents	HK7.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	31 December 2005	30 June 2005
	(Unaudited)	and restated)
<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	157,087	157,097
Prepaid land premiums	72,562	72,759
Intangible assets	16,020	13,406
Goodwill:		
Goodwill	18,865	18,865
Negative goodwill	–	(35,897)
Investment in a jointly-controlled entity	–	–
Investment in an associate	100	100
Long term investment	11,969	11,969
Long term deposits	17,764	7,483
	294,367	245,782
CURRENT ASSETS		
Inventories	27,312	21,580
Accounts receivable	258,672	241,470
Prepayments, deposits and other receivables	35,667	44,852
Cash and bank balances	508,449	474,000
	830,100	781,902
CURRENT LIABILITIES		
Accounts payable	66,412	57,344
Tax payable	9,492	8,933
Accrued liabilities and other payables	47,395	45,621
Bank loans	116,628	117,887
Convertible bonds	390	–
Dividend payable	17,415	–
	257,732	229,785
NET CURRENT ASSETS	572,368	552,117
TOTAL ASSETS LESS CURRENT LIABILITIES		
	866,735	797,899
NON-CURRENT LIABILITIES		
Bank loans	66,338	79,159
Convertible bonds	–	390
Deferred tax liabilities	18,173	18,173
	84,511	97,722
	782,224	700,177
CAPITAL AND RESERVES		
Equity attributable to equity holders of the parent		
Issued capital	87,103	87,073
Reserves	662,024	564,493
Proposed final dividend	–	17,415
	749,127	668,981
Minority interests	33,097	31,196
	782,224	700,177

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	From 1 July 2005 to 31 December 2005									
	Issued Share capital <i>HK\$'000</i>	Reserves					Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority Interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
		Share premium account <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>				
At 30 June 2005										
As previously reported	87,073	229,567	5,974	35,216	295,422	566,179	17,415	670,667	31,339	702,006
Prior year adjustment: Effect of adopting HKAS17	-	-	(1,686)	-	-	(1,686)	-	(1,686)	(143)	(1,829)
Restated as at 30 June 2005	87,073	229,567	4,288	35,216	295,422	564,493	17,415	668,981	31,196	700,177
Effect of adopting HKFRS 3	-	-	-	-	35,897	35,897	-	35,897	-	35,897
Restated as at 1 July 2005	87,073	229,567	4,288	35,216	331,319	600,390	17,415	704,878	31,196	736,074
Share issue upon exercise of share options	30	162	-	-	-	162	-	192	-	192
Final dividend declared	-	-	-	-	-	-	(17,415)	(17,415)	-	(17,415)
Profit for the period	-	-	-	-	61,472	61,472	-	61,472	1,901	63,373
At 31 December 2005 (unaudited)	87,103	229,729	4,288	35,216	392,791	662,024	-	749,127	33,097	782,224
	From 1 July 2004 to 31 December 2004									
	Issued Share capital <i>HK\$'000</i>	Reserves					Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority Interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
		Share premium account <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>				
At 1 July 2004	65,630	89,482	2,267	20,117	225,863	337,729	13,167	416,526	35,824	452,350
Share issue upon exercise of share options	50	270	-	-	-	270	-	320	-	320
Share issue upon conversion of convertible bonds	2,000	11,604	-	-	-	11,604	-	13,604	-	13,604
Final dividend declared	-	-	-	-	-	-	(13,167)	(13,167)	-	(13,167)
Profit for the period	-	-	-	-	50,684	50,684	-	50,684	183	50,867
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	18,379	18,379
Divestment of a subsidiary	-	-	-	-	-	-	-	-	(13,163)	(13,163)
At 31 December 2004 (unaudited)	67,680	101,356	2,267	20,117	276,547	400,287	-	467,967	41,223	509,190

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	67,234	21,311
Net cash outflow from investing activities	(18,897)	(10,049)
Net cash (outflow)/inflow from financing activities	(13,888)	54,647
INCREASE IN CASH AND CASH EQUIVALENTS	34,449	65,909
Cash and cash equivalents at beginning of period	474,000	271,365
CASH AND CASH EQUIVALENTS AT END OF PERIOD	508,449	337,274
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	508,449	337,274

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Accounting Policies

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 30 June 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 17	Leases
HKAS 36	Impairment of Assets
HKFRS 3	Business Combinations

A. HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group’s leasehold interest in land and buildings is divided into leasehold land and leasehold buildings. The Group’s leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 30 June 2005 have been restated to reflect the reclassification of leasehold land.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

1. Accounting Policies *(continued)*

B. HKAS 36 – *Impairment of Assets* and HKFRS 3 – *Business Combinations*

In prior periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKAS 36 and HKFRS 3, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate as at 1 July 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained earnings.

Pursuant to HKFRS 3, the carrying amount of negative goodwill in the balance sheet as at 1 July 2005 of HK\$35,897,000 was derecognised by way of a corresponding adjustment to the opening retained profits as at 1 July 2005. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

2. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

3. Segment information

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

	Manufacturing		Trading		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31 December		31 December		31 December	
	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>223,531</u>	<u>174,378</u>	<u>78,904</u>	<u>150,210*</u>	<u>302,435</u>	<u>324,588</u>
Segment profits	<u>87,953</u>	<u>76,803</u>	<u>1,040</u>	<u>3,386</u>	<u>88,993</u>	<u>80,189</u>
Interest income and unallocated gain					3,598	2,452
Net unallocated expenses					(9,367)	(15,859)
Finance costs					(5,501)	(3,584)
Share of losses of:						
Jointly-controlled entity					-	-
Associate					-	(385)
Amortisation of goodwill on acquisition of an associate					-	(50)
Profit before tax					<u>77,723</u>	<u>62,763</u>
Tax					<u>(14,350)</u>	<u>(11,896)</u>
Profit for the period					<u><u>63,373</u></u>	<u><u>50,867</u></u>

* In the prior period, the sales contributed by Hubei Kanglai Medicine Company Limited ("Kanglai Medicine") (湖北康萊醫藥有限公司) amounted to HK\$78.5 million. No sales was contributed by Kanglai Medicine in the Period because Kanglai Medicine ceased to be a subsidiary in October 2004.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. Finance costs

	For the six months ended	
	31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	5,496	3,509
Finance lease	–	1
Convertible bonds	5	74
	<u>5,501</u>	<u>3,584</u>

5. Profit before tax

Profit before tax is arrived at after charging/(crediting):

	For the six months ended	
	31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	100,779	167,301
Staff costs	12,816	11,238
Depreciation	4,863	3,021
Amortisation of prepaid land premiums	197	142
(Gain)/loss on disposal of fixed assets	26	(115)
Amortisation of intangible assets	1,124	454
Interest income on bank balances	(3,290)	(2,452)
	<u>(3,290)</u>	<u>(2,452)</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. Tax

	For the six months ended	
	31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Mainland China	14,350	11,896
Share of tax attributable to:		
Jointly-controlled entity	–	–
Associate	–	–
Total tax charge for the Period	<u>14,350</u>	<u>11,896</u>

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2004: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to an approval received from 貴州省科學技術廳 on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. (“**GHMM**”) (貴州漢方製藥有限公司), a subsidiary of the Company, was classified as one of the approved “High and New Technology Enterprises” in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland Corporate Income Tax rate of 15% starting from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau in 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) (“**Guiyang DCX**”), a subsidiary of the Company, was approved to enjoy a Mainland Corporate Income Tax rate of 15% from years 2003 to 2007 with respect to the preferential tax policy granted by the local government for the entity established in western Mainland China.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

7. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share of HK\$0.1 each of the Company (each a “Share”) for the Period are as follows:

	For the six months ended	
	31 December	
	2005	2004
	(Unaudited)	(Unaudited)
Net profit for the period attributable to equity holders of the parent for the purpose of calculating basic earnings per Share <i>(HK'000)</i>	61,472	50,684
Increase in net profit for deemed conversion of potential ordinary Shares <i>(HK'000)</i>	5	74
Adjusted profit for the purpose of calculating dilutive earnings per Share <i>(HK\$'000)</i>	<u>61,477</u>	<u>50,758</u>
Number of Shares		
Weighted average number of ordinary Shares for the purpose of calculating basic earnings per Share <i>('000)</i>	870,765	660,824
Effect of dilutive potential ordinary Shares <i>('000)</i> <i>(Note)</i>	<u>3,287</u>	<u>22,559</u>
Weighted average number of ordinary Shares for the purpose of calculating diluted earnings per Share <i>('000)</i>	<u><u>874,052</u></u>	<u><u>683,383</u></u>

Note:

Number of ordinary Shares deemed to be issued on full conversion of convertible bonds and to be issued at nil consideration on exercise of all outstanding share options are 262,000 Shares (2004: 11,073,000 Shares) and 3,025,000 Shares (2004: 11,486,000 Shares) respectively.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

8. Accounts receivable

The Group generally offers credit terms of up to 180 days to its trade customers. The aging analysis of the Group's accounts receivable is as follows:

	31 December 2005 (Unaudited) HK\$'000	30 June 2005 (Audited) HK\$'000
Within 90 days	154,399	143,969
91 – 180 days	79,001	78,034
181 – 365 days	25,272	19,467
	<u>258,672</u>	<u>241,470</u>

9. Accounts payable

The aging analysis of the Group's accounts payable is as follows:

	31 December 2005 (Unaudited) HK\$'000	30 June 2005 (Audited) HK\$'000
Within 90 days	54,394	41,605
91 – 180 days	6,246	6,791
181 – 365 days	2,589	4,780
Over 1 year	3,183	4,168
	<u>66,412</u>	<u>57,344</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10. Share capital

The following is a summary of the movements in the authorised and issued share capital of the Company:

	<i>Notes</i>	Number of authorised Shares (‘000)	Number of issued Shares (‘000)	Nominal value of Shares issued HK\$‘000
Share capital as at 1 July 2004		2,000,000	656,302	65,630
Shares issued during the Period	<i>(a)</i>	—	20,504	2,050
Share capital as at 31 December 2004		<u>2,000,000</u>	<u>676,806</u>	<u>67,680</u>
Shares issued during the Period	<i>(b)</i>	—	193,928	19,393
Share capital as at 30 June 2005		<u>2,000,000</u>	<u>870,734</u>	<u>87,073</u>
Shares issued during the Period	<i>(c)</i>	—	300	30
Share capital as at 31 December 2005		<u>2,000,000</u>	<u>871,034</u>	<u>87,103</u>

Notes:

- (a) During the six months ended 31 December 2004, share options granted under the share option scheme of the Company were exercised which resulted in the issue of 500,000 Shares. Also, part of the convertible bonds were converted into 20,004,000 Shares.
- (b) During the six months ended 30 June 2005, share options granted under the share option scheme of the Company were exercised which resulted in the issue of 51,500,000 Shares and part of the convertible bonds were converted into 9,196,000 Shares. Also, the Company issued 133,232,400 Shares to Haw Par Pharmaceutical Holdings Pte Limited (“**Haw Par**”), a company incorporated in Singapore and independent to the Group, under a subscription agreement.
- (c) During the six month ended 31 December 2005, the share options granted under the share option scheme of the Company were exercised which resulted in the issue of 300,000 Shares.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

11. Operating lease commitments

(a) *As lessor*

The Group leases its leasehold land and buildings under operating lease arrangements, with leases negotiated for terms of one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases which its tenants falling due as follows:

	31 December 2005 HK\$'000	30 June 2005 HK\$'000
Within one year	1,057	2,147
In the second to fifth years, inclusive	1,293	2,677
	<u>2,350</u>	<u>4,824</u>

(b) *As lessee*

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

As at 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2005 HK\$'000	30 June 2005 HK\$'000
Within one year	750	952
In the second to fifth years, inclusive	91	43
	<u>841</u>	<u>995</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

12. Commitments

As at 31 December 2005, the Group had contracted commitments of HK\$8,411,000 (30 June 2005: HK\$3,703,000) in respect of purchases of technical know-how.

13. Contingent liabilities

As at 31 December 2005, the Group did not have any material contingent liabilities (30 June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women in the People's Republic of China ("PRC"). The Group managed to achieve a positive return for the Period through the synergy as manifested by its own and other joint distribution channels across the country as well as its extensive marketing network.

BUSINESS REVIEW

Underpinned by the steady upswing of the PRC's macro-economic environment, the pharmaceutical industry, on the whole, has manifested its momentum in its robust industrial production, active commercial sales, steadily increasing import and export, and improving performance. Meanwhile, the pharmaceutical industry is undergoing a stage of consolidation, marked with increasingly keen market competition.

The pharmaceutical industry has embarked on a progressive path, featuring a steady growth in both market demand and production volume of pharmaceutical products and the positive development of the Chinese bio-pharmaceutical industry.

Notwithstanding the intense competition in the pharmaceutical market in general, the Group achieved a steady growth in the Period. The Directors believe that the Group's outstanding market performance is attributed to its fundamental strategy of focusing its development to become the leading pharmaceutical enterprise in the field of gynecological medicines and medicinal healthcare products for women.

During the Period, the Group has attended several industry conferences and trade exhibitions, including the 8th National Symposium of the Clinical Oncology and the Annual Conference of Chinese Society of Clinical Oncology ("CSCO") (第八屆全國臨床腫瘤學大會暨2005年中國抗癌協會臨床腫瘤學協作委員會學術年會), the Conference of Clinical Oncology of Hubei Province (湖北省腫瘤學會年會), the 53rd and 54th Annual National Pharmacy Trade Conferences (第53、54屆全國藥品交易會), the 20th Trade Exhibition of Medicine & Healthcare Products of the Inner Mongolia Autonomous Region (第20屆內蒙古自治區醫藥保健品交易會), the Medicine Expo of China (Guiyang) 2005 (2005中國(貴陽)醫藥博覽會) and the Medicine Expo of Guizhou Province (Longli) (貴州龍里藥博會). Participation in such medical conferences and trade exhibitions not only enhanced our corporate image, but also helped to consolidate our relationships with hospitals and distributors and capture market opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL PERFORMANCE

During the Period, the Group's turnover was approximately HK\$302.4 million, of which approximately HK\$223.5 million (73.9% of the Group's turnover) was attributable to the turnover of the Group's own products, representing a growth of 28.2% as compared with approximately HK\$174.4 million in the corresponding period last year. In addition, approximately HK\$78.9 million was attributable to the turnover of trading business, representing the decrease of 47.5% as compared with approximately HK\$150.2 million in the corresponding period last year. The turnover of trading business decreased because Kanglai Medicine which contributed the sales of HK\$78.5 million in the prior period ceased to be a subsidiary in October 2004.

Besides, approximately HK\$62.6 million of the turnover was attributable to Guiyang DCX and Guangdong Qunhe Pharmaceutical Company Limited (“**Guangdong Qunhe**”) (廣東群禾藥業有限公司) which were acquired in October 2004 and July 2004 respectively, representing a growth of 331.7% as compared with corresponding period last year.

PRESCRIPTION DRUGS

Gynecological Anti-inflammatory Products

The **Yeosure Series** (日舒安系列), one of the product line of gynecological anti-inflammatory products, recorded a total sales of approximately HK\$58.7 million during the Period, accounting for approximately 26.3% of the total turnover of the Group's own products.

Gynecological Endocrine Products

Yeosure Puerperant's Health Drink (日舒安婦康沖劑), a gynecological endocrine product, recorded a total sales of approximately HK\$11.3 million, accounting for approximately 5.1% of the total turnover of the Group's own products.

Gynecological Anti-tumour Products

Jin Xi Su (金喜素) and **Qiang Xi** (強喜), **Camptothecine Series** (喜樹碱系列), all of which are naturally-sourced gynecological anti-tumour injection medicines, brought in a total sales of about HK\$44.6 million during the Period, representing approximately 20.0% of the total turnover of the Group's own products and a growth of 10.7% as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PRESCRIPTION DRUGS (continued)

Medicine for Children

Cefadroxil Granules (毅達顆粒), an antibiotic for children, recorded a total sales of approximately HK\$17.3 million during the Period, representing 7.7% of the total turnover of the Group's own products.

Newly Launched Products during the Period

A newly launched product, namely **Jinshan Xiaoke Granules (金鱗消渴顆粒)**, a medicine for diabetes, has made approximately HK\$9.2 million of sales during the Period. **Pacilitaxel Injection (紫杉醇注射液) – Jinbaka (金巴卡)**, a naturally-sourced anti-tumour medicine, and **Kangai Fuzheng Capsules (康艾扶正膠囊)** were launched in December 2005 and contributed sales of approximately HK\$1.1 million and HK\$2.2 million respectively during the Period. These products show a promising market.

OVER-THE-COUNTER (“OTC”) DRUGS

Gynecological Endocrine Products

Sales of **Fuke Zaizaowan (婦科再造丸)**, a gynecological endocrine proprietary product, was approximately HK\$16.4 million during the Period, accounting for about 7.3% of the total turnover of the Group's own products and a growth of about 485.7% as compared with the corresponding period last year, since the Group acquired Guiyang DCX in October 2004 and sales from Guiyang DCX were consolidated into the accounts of the Group since then.

Sales of **Huangqi Granules (黃芪顆粒)**, a gynecological endocrine product, was approximately HK\$14.1 million during the Period, accounting for 6.3% of the total turnover of the Group's own products.

MEDICINAL HEALTHCARE PRODUCTS

Sales of medicinal healthcare products under the brand series of “**Magic美即**” was approximately HK\$33.1 million during the Period, representing 14.8% of the total turnover of the Group's own products and a growth of 227.7% as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

MERGERS & ACQUISITIONS

The acquisitions of Guiyang DCX and Guangdong Qunhe have greatly enriched the variety of the Group's gynecological products, helping the Group to penetrate into the promising market of OTC drugs and medicinal healthcare products for women and symbolising the Group's initiative of significance in improving its operation efficiency and competitiveness as a whole. During the Period, the selling and distribution expenses (excluding advertising and promotion expenses) amounted to approximately 4.3% of the total turnover of the Group's own products which showed saving of 5.3% compared with that of approximately 4.6% of the total turnover of the Group's own products for the corresponding period last year. In addition, the administrative expenses in percentage of the Group's total turnover decreased by 9.8% during the Period as compared with the corresponding period last year.

During the Period, under the strategic guidance of the Group, Guiyang DCX was, in addition to the existing five good manufacturing practice ("GMP") production lines, obtained State GMP certification for a total of six new GMP production lines, including those for the production of vials, tinctures, mixture, syrup, paste and aerosol, and Guiyang DCX now has a total of 11 GMP production lines. This has greatly enhanced the Group's production capacity in traditional Chinese medicines and has provided additional production resources for our future development.

Guiyang DCX has set its goal of becoming the leading professional pharmaceutical manufacturer of classic Chinese gynecological medicines in China. In order to enhance its business growth, Guiyang DCX is determined to turn **Fuke Zaizaowan (婦科再造丸)** into its core product and make the OTC sales to be its major market by means of brand name promotion and consolidation and integration of distribution channels. Guiyang DCX has implemented its integrated marketing plans in Guizhou, Yunnan, Sichuan, Chongqing, Shaanxi and Gansu Provinces and has achieved promising results.

During the Period, Guangdong Qunhe, under the Group's strategic guidance, expanded the medicinal healthcare product lines of "**Magic美即**", from originally 29 products to now 35 products under three main product series, covering facial treatment, eye treatment and body treatment. The "**Magic美即**" series are now sold in Watsons, Carrefour, Jusco and other famous national retail channels, covering more than 10 medium-sized or major cities, namely Guangzhou, Shenzhen, Beijing, Wuhan, Dongguan, Chongqing, Chengdu, Dalin, Tianjin and Urumqi. During the Period, Guangdong Qunhe fully made use of the strategic cooperation agreement entered into with Watsons, an international renowned personal healthcare products chain store, and successfully expanded the sales of the "**Magic美即**" series products through Watsons' extensive chain store marketing network throughout the country. The "**Magic美即**" mask accounted for approximately 20% of the sales volume of masks of Watsons, one of the top three mask products sold by Watsons in terms of sales for three consecutive months from October to December 2005. Meanwhile, three products in the "**Magic美即**" series rank third for three consecutive months in Watsons' skincare product billboard in their respective category. Guangdong Qunhe also captured the golden opportunity in introducing six new cream mask products during the Period and received warm welcome in the market.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESEARCH AND DEVELOPMENT

Adhering to the policy of continuous development, the Group, under the existing strategic guidance, endeavours to commit appropriate resources in research and development so as to further enrich the Group's gynecological product mix, maintain the persistent growth in business and enhance its competitiveness in the future.

The Group obtained the production approval of **Pacilitaxel Injection** (紫杉醇注射液) - **Jinbaka** (金巴卡), a naturally-sourced anti-tumour medicine, and successfully launched the product in the market during the Period.

The Group has undertaken the second phase of clinical trials of **Fu Shu Le Tablets** (婦舒樂片), a new Chinese medicine for curing gynecological atropic vaginitis which is common for women at menopause. It is expected that the third phase of clinical trials will be completed in 2006 and the application for the new medicine certification with the State Food and Drug Administration of the PRC ("SFDA") will be made.

The Group formulated the manufacturing process and completed the quality studies of **Omeprazole Sodium** (奧美拉唑鈉) and **Levofloxacin Lactate Injection** (乳酸左氧氟沙星注射液), anti-inflammatory products, during the Period. The Group also compiled all the relevant production information for registration with the SFDA and applications were made for the production approval. It is expected that the products will be approved for sales in 2006.

It is expected that **Secmidazole Tablets and Capsules** (塞克硝唑片及膠囊), a product curing gynecological trichomoniasis and anerobe, will obtain the new medicine certification and approval for sales from the SFDA and will be launched in the market in 2006.

In addition, the Group made an application for the production approval with the SFDA for the following three medicines and the products are expected to be launched in 2006. (I) **Oxaliplatin** (奧沙利鉑): an injection medicine for curing patients who suffer from rectum cancer but fail to recover after chemotherapy. (II) **Rupikang Capsules** (乳癖康膠囊): a new Chinese medicine curing hyperplasia of mammary gland and breast tenderness caused by Liver Qi stagnation (肝氣鬱結), Qi-stagnancy and Blood-stasis (氣滯血瘀) in women. (III) **Cihang Capsules** (慈航膠囊): a new Chinese medicine that cures gynecological menstrual blood irregularities, masses and lumps in the abdomen, post-partum blood dizziness and lochiorrhoea.

Guiyang DCX's proprietary product, **Fuke Zaizaowan Capsules** (婦女再造丸膠囊), passed the technical evaluation procedure of the SFDA and the Group obtained the exclusive rights for production.

Guangdong Qunhe completed the research and development for a total of 51 products of the "Magic美即" series, and 35 of which has been launched in the market, including six new cream mask products introduced during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PRESTIGE

During the Period, with its outstanding quality and the warm market welcome in the last 13 years in the PRC's hospital market, **Yeosure Natural Medicine Lotion** (日舒安洗液) was recognised as the "PRC's renowned brand name" (中國著名品牌) by the Social Survey Institute of China ("SSIC") (中國社會調查所), a renowned survey institute in China, in the "Product survey on market satisfaction and reputation" on the PRC's gynecological medicinal products in 2005, and was awarded a medal and an honourable certificate in December 2005.

Fuke Zaizaowan (婦科再造丸), a major product of the hundred-year-old Guiyang DCX, received two second-class awards in Guizhou Province including outstanding new product and outstanding technical innovation; Guiyang DCX's "**Xiaozhong Zhichuang Tablets**" (消腫痔瘡片), "**Er Tong Huichun Granules**" (兒童回春顆粒) and "**Ban Zhi Lain Tablets**" (半支蓮片) received a third-class honour in Guiyang City on outstanding new product (environmental protection product) in 2005.

PRODUCTION FACILITIES

To satisfy the mandatory requirements of the SFDA that medicine manufacturers must obtain GMP certification, and to allow the Group to be more competitive in the pharmaceutical industry, GHMM and Guiyang DCX have a total of 15 and 11 GMP compliant production lines respectively. To date, the Group has a total of 26 production lines which have been accredited with the GMP certification issued by the SFDA of the PRC, covering most types of medication, with an average throughput reaching approximately 40% of the designated production capacity and sufficient production capacity readily for further development. In addition, the production lines of the two production enterprises, namely, GHMM and Guiyang DCX, serve as the supplement to each other, and this enables the Group to share internal resources and allow more flexibility for the Group's production planning, facilitate the manifestation of enterprise synergy and upgrade the Group's standard on production management. After the accreditation of GMP certifications of all its production lines, it is believed that the Group has become one of the leading pharmaceutical manufacturing enterprises (in terms of the scale of production facilities and the products types available) in the southwestern region of the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

The stable social development of the PRC and its booming economy, together with the steady growth of income level and living standard of its population and the increased awareness in health, will all serve as the long-term driving force for propelling the rapid growth in the PRC's pharmaceutical market demand.

With respect to the pharmaceutical industry, the mandatory GMP and Good Supply Practice certifications have intensified the competition in the pharmaceutical industry by eliminating unqualified enterprises because qualified enterprises focus more on business development and product promotion. It is expected that there will be more merger and acquisition activities in the market, resulting in the survival of the fittest in the market. However, the Group positions itself in a niche of gynecological medicinal market which is dominated by traditional Chinese medicines. This market shows a high growth rate which is caused by higher morbidity of gynecological sickness arose from serious environmental pollution and intense pressure from work and living, ever-arising of women's health awareness and constant market expansion. In this market, the Group has competitive advantages over other manufacturers with its proprietary and protected products. It enables the Group to maintain a steady growth in turnover and profit in recent years and defense against fierce competition in the market. The Group expects to maintain this trend in the coming years.

Notwithstanding the increasing competition among the pharmaceutical production enterprises, the Group is able to maintain the steady growth of its prescription drugs while **Fuke Zaizaowan** (婦科再造丸) and the "Magic美即" series have also achieved a continuous growth with their unique edges.

The Group will continue its strategic planning on establishing itself as the leading enterprise in the manufacture and sale of gynecological pharmaceutical products and feminine medicinal healthcare products. The Group will put an emphasis on the effective integration of its existing products, brand and sales network resources, optimisation of internal resources allocation, manifestation of edges of its products, production, sales and distribution management, enhancement of the synergy as manifested by the Group's internal departments and strengthening of the Group's capacity and competitiveness on research and development, production, sales and operation management. Under the corporate strategy of establishing itself as the leading enterprise in gynecological pharmaceutical products and feminine medicinal healthcare products, the Group has improved the development plan of prescription drugs, OTC drugs and medicinal healthcare products, for ensuring the competitive edges of these products, strengthening its competitiveness and swiftly enhancing its profitability with the expansion of sales.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

In this year, the Group will continue to dedicate itself to the promotion of **Fuke Zaizaowan** (婦科再造丸) in the OTC market, extending its market coverage to Guangdong, Hubei and Beijing with a view to achieving a significant growth in the market sales, enlarging the market share and raising its market profile, thereby allowing **Fuke Zaizaowan** (婦科再造丸) to be one of the Group's major OTC drugs. The rapid growth, and momentum maintained, in the sales of "Magic美即" series in Watsons made the series to rank the top three in the sales of mask and skincare products from October to December 2005, and reinforced the Group's strategic plan and confidence in furthering its efforts in the promotion of "Magic美即". In this year, the Group will spare no efforts in the development of "Magic美即" in the core markets in Guangdong, Beijing, Shanghai, Hubei and Sichuan, through the development of markets in the Southern region, Eastern region, Central region and the Southwestern region in the PRC to establish a nationwide sales network. Through the above strategy, "Magic美即" series target to double its points of sales from the existing approximately 350 to approximately 700 in the coming year. Besides, on the basis of the popularity of "Magic美即" products acquired in its major markets, such as Guangdong, Beijing and Shanghai as well as our dedicated efforts in the product planning and product development, "Magic美即" is expected to launch at least 14 new products in the market in the coming year.

The Group will also make efforts in establishing an efficient team on the management of sales for consumer products, with a view to realising the goal of achieving a breakthrough in turnover and a steady market growth.

In the aspect of research and development and production, the Group will continue to put a strong emphasis on product development, further enrich the Group's product mix of gynecological products, increase the variety of products that are unique in the market and that are patent-protected, for laying the strong product foundation for further market development in the future. Meanwhile, the fully manifestation of the edges of the Group's 26 GMP accredited production lines, the lowering of production costs and the enhancement of production efficiency will provide support to the Group's production for enlarging the market share of its products.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 31 December 2005, the Group had cash and bank balances of approximately HK\$508.4 million (30 June 2005: approximately HK\$474.0 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to equity holders of parent was approximately 24.4% (30 June 2005: approximately 29.5%). Net current asset value was approximately HK\$572.4 million (30 June 2005: approximately HK\$552.1 million) and the current ratio calculated as a ratio of current assets to current liabilities was maintained at the healthy level of approximately 3.2 (30 June 2005: approximately 3.4).

COMMITMENTS

As at 31 December 2005, the Group had contracted commitments of HK\$8,411,000 (30 June 2005: HK\$3,703,000) in respect of purchases of technical know-how.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities (30 June 2005: Nil).

BANK BORROWINGS

As at 31 December 2005, the Group had outstanding bank loans of approximately HK\$183.0 million from banks in the PRC and Hong Kong (30 June 2005: approximately HK\$197.0 million), approximately 63.7% (30 June 2005: approximately 59.8%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollars.

As at 31 December 2005, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain land and buildings of the Group; (iii) corporate guarantees executed by a subsidiary of the Company; (iv) pledge of the equity interests in certain subsidiaries held by the Group and; (v) the personal guarantees from Zhang Peter Y. and Xu Peng, Directors and beneficial shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

SEASONAL OR CYCLICAL FACTORS

During the Period, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

FOREIGN EXCHANGE EXPOSURE

During the Period, the Group mainly earned revenue and incurred costs in Renminbi. Renminbi was relatively stable during the Period. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the Period, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these facilities were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollars.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2005, the Group had a total of 1,158 employees (2004: 1,315), of whom 1,151 were based in the PRC, with the rest working in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Period, staff costs (including Directors' remunerations) amounted to approximately HK\$12,816,000 (2004: approximately HK\$11,238,000). The Group has participated in retirement benefit schemes for its staff both in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Period.

INTERIM DIVIDEND

The Directors has resolved not to declare any interim dividend for the Period (2004: Nil).

ADDITIONAL INFORMATION

SHARE OPTION SCHEME

The Company operates a share option scheme (“**Scheme**”) for the purpose of providing incentives and/or rewards to eligible participants who contribute to the success of the Group’s operations. The Scheme became effective on 25 November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that day.

Details of the movement during the Period of options granted under the Scheme are as follows:

Class of grantee	Date of grant	Outstanding	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding	Exercise price per Share (HK\$)	Exercise period
		as at 1 July 2005				as at 31 December 2005		
Directors (<i>Note 1</i>)	1/09/2004	1,200,000	-	-	-	1,200,000	0.64	1/09/2004 to 31/08/2006
Other employees (<i>Note 2</i>)	1/09/2004	5,400,000	-	(300,000) (<i>Note 3</i>)	-	5,100,000	0.64	1/09/2004 to 31/08/2006
Others	1/09/2004	7,000,000	-	-	-	7,000,000	0.64	1/09/2004 to 31/08/2006
		<u>13,600,000</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>	<u>13,300,000</u>		

Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed “Directors’ rights to acquire Shares or debentures” in this report below.
2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57, of the Laws of Hong Kong).
3. The weighted average closing price of the Shares of the Company on 9 December 2005, being the trading day immediately preceding the date of exercise of the options, was HK\$0.87 per Share.

ADDITIONAL INFORMATION *(continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the Shares or underlying Shares or, as the case may be, the equity interest, and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the listing of securities on the Stock Exchange (“**Listing Rules**”) to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/ percentage in equity interest <i>(Note 1)</i>	Approximate percentage of interest
Zhang Peter Y.	The Company	Interest of controlled corporation	308,758,783 Shares (L) <i>(Note 2a)</i>	35.45%
	The Company	Beneficial owner	600,000 Shares (L) <i>(Notes 2b)</i>	0.07%
Xu Peng	The Company	Beneficial owner	600,000 Shares (L) <i>(Notes 2b)</i>	0.07%
Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. (“GHXM”)	Interest of controlled corporation	5% (L) <i>(Note 3)</i>	5%

Notes:

- The letter “L” represents the Director’s interests in the Shares and underlying Shares or, as the case may be, the equity interest of the Company or its associated corporations.
- These 308,758,783 Shares were held by Bull’s-Eye Limited (“**BEL**”), more than one-third of the issued share capital of which is beneficially owned by Zhang Peter Y. By virtue of the provisions of Divisions 7 and 8 Part XV of the SFO, Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.

ADDITIONAL INFORMATION *(continued)*

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

- b. These Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to each of Zhang Peter Y. and Xu Peng under the Scheme. These options, all of which remained exercisable as at 31 December 2005, are exercisable at the subscription price of HK\$0.64 per Share at any time during a period of two years commencing from and including 1 September 2004 to 31 August 2006.
3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited ("GHKA"), which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.

Save as disclosed above, as at 31 December 2005, none of the Directors and chief executive of the Company had any interest and short positions in the Shares, underlying Shares or, as the case may be, the equity interest, and debentures of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Particulars of the options granted to the Directors under the Scheme and outstanding as at 31 December 2005 were as follows:

Name of Directors	Date of grant	Number of underlying Shares of the Company	Exercise price per Share (HK\$)	Exercise period
Zhang Peter Y.	1/09/2004	600,000	0.64	1/09/2004 to 31/08/2006
Xu Peng	1/09/2004	600,000	0.64	1/09/2004 to 31/08/2006

Other than as disclosed above, at no time during the Period was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporation.

ADDITIONAL INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2005, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
BEL <i>(Note 2)</i>	308,758,783 (L)	Beneficial owner	35.45%
Liu Yu <i>(Note 3)</i>	309,358,783 (L)	Interest of spouse	35.52%
Haw Par Corporation Limited <i>(Note 4)</i>	183,532,400 (L)	Interest of controlled corporation	21.07%
Haw Par Pharmaceutical Holdings Pte. Ltd <i>(Note 4)</i>	183,532,400 (L)	Beneficial owner	21.07%
Daiwa SB Investments (HK) Limited	47,680,000 (L)	Investment manager	5.47%
Neon Liberty Capital Management, LLC	44,180,000 (L)	Investment manager	5.07%
UBS AG	44,180,000 (L)	Person having a security interest in Shares	5.07%

Notes:

1. The letter "L" represents the person's or the entity's interests in Shares.
2. More than one-third of the issued share capital of BEL is beneficially owned by Zhang Peter Y. By virtue of the provisions of Divisions 2 and 3 of part XV of the SFO, Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL.
3. Liu Yu is the wife of Zhang Peter Y., an executive Director, and is deemed to be interested in the Shares and underlying Shares in the Company in which Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of part XV of the SFO.
4. Haw Par Pharmaceutical Holdings Pte. Ltd. is a wholly owned subsidiary of Haw Par Corporation Limited, a company incorporated in Singapore whose shares are listed on the Singapore Exchange Securities Trading Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Haw Par Corporation Limited is deemed to be interested in all Shares in which Haw Par Pharmaceutical Holdings Pte. Ltd. is interested.

ADDITIONAL INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO *(continued)*

Save as disclosed above, as at 31 December 2005, no person or entity, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company complied with the code provisions of the Code of Corporate Governance Practices (“**Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) throughout the accounting period covered by the interim report, except that the independent non-executive Directors were not appointed for a fixed term. The term of appointment of each of the independent non-executive Directors has been revised to a specific term of two years commencing from 1 January 2006.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

The Company adopted on 27 September 2004 its new securities dealing code (“**New Code**”) regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers set out in the revised Appendix 10 to the Listing Rules which came into effect on 31 March 2004.

The Company, having made specific enquiry with all Directors, is not aware of any non-compliance by any Director during the Period with the New Code and Appendix 10 to the Listing Rules.

AUDIT COMMITTEE

The Board established the Audit Committee on 20 September 2002 and re-constituted the Audit Committee on 27 September 2004 and 5 September 2005, in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Audit Committee comprises Mr. Han Ah Kuan, a non-executive Director, and the three independent non-executive Directors. The Group’s financial statement for the Period have been reviewed by the Audit Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosure have been made.

ADDITIONAL INFORMATION *(continued)*

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of Chapter 13 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

On 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong ("**Loan Agreement**"), which contains specific performance obligation on Mr. Zhang Peter Y. ("**Mr. Zhang**") and Mr. Xu Peng ("**Mr. Xu**").

The Loan Agreement is for a term loan facility of up to HK\$100,000,000, the final maturity date of which shall be the date falling 36 months from the date of the Loan Agreement (i.e. 15 September 2007).

The Loan Agreement provides that so long as there remains any money outstanding under the Loan Agreement: (1) Mr. Zhang shall continue to be the chairman and (save and except BEL) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu shall continue to be a Director of the Company and (save and except BEL) the person with the second single largest attributable shareholding in the Company; and (3) Mr. Zhang and Mr. Xu shall collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Company, free from any encumbrances and shall collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

On behalf of the Board
Zhang Peter Y.
Chairman

Hong Kong, 20 March 2006