

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group recorded a consolidated turnover of HK\$90,696,000 representing an increase of 55% compared with HK\$58,606,000 recorded in the last corresponding period. The gross profit was HK\$30,235,000 (for the six months ended 30 September 2005: HK\$11,577,000) representing an increase of 161% as compared with the corresponding period of last year. The Group recorded a loss of approximately HK\$23,896,000 for the six months ended 30 September 2006 compared to a loss of approximately HK\$14,698,000 in the corresponding period in 2005. The results were mainly affected by the share-based payment of HK\$32,540,000 in respect of share options granted during the period. The results of current period, excluding the share-based payment, would be HK\$8,644,000 profit. As the Group continues to further focus on the biopharmaceutical field, less reliance has been placed on the Group's original core business of manufacturing and trading of packaging products, paper gifts items and promotional products. During the period under review, turnover attributable to the distribution of biopharmaceutical products amounted to approximately 61% of total turnover, while turnover attributable to manufacturing and trading of packaging products, paper gifts items and promotional products amounted to approximately 39% of total turnover.

Business Review

Distribution of biopharmaceutical products

With the completion of the acquisition of Figures Up Trading Limited and its subsidiaries ("FUTL Group") on 14 June 2006, the Group has integrated and consolidated the later's distribution channel of biopharmaceutical products with nation wide Good Service Practice ("GSP") recognition in the PRC.

This division achieved a turnover for the period from date of completion of the acquisition (14 June 2006) to 30 September 2006 of HK\$55,347,000 with gross profit of HK\$25,370,000.

Packaging products

Sales of packaging products for the period under review amounted to HK\$17,675,000, representing a significant drop of approximately 33% when compared to corresponding period of last year. The decrease was mainly due to increase in market competition and the prudent approach taken by the Group in accepting new orders.

Paper gift items

Paper gift items recorded a turnover of HK\$2,474,000 (for the six months ended 30 September 2005: HK\$10,668,000), representing a decrease of HK\$8,194,000 or around 77% when compared to corresponding period of last year. The decrease was mainly due to increase in market competition and the prudent approach taken by the Group in accepting new orders.

Promotional products

For the period under review, the division has a turnover amounted to HK\$15,200,000, representing a decrease of HK\$6,181,000 or 29% when compared to HK\$21,381,000 recorded in corresponding period of last year. The decrease was mainly due to the increase in market competition and the prudent approach taken by the Group in accepting new orders.

Business Development

Developing and focusing its research on pharmaceutical products in the PRC, the Group has a number of new patent protected Class I & II prescription drugs in the pipeline. The Class I prescription drugs include Recombinant Exendin-4 (rExendin-4) and Recombinant Thymopentin (rTP-5). The Class II prescription drugs include Recombinant Human Parathyroid Hormone (rhPTH 1-34), and Recombinant Human Interleukin 11 (rhIL-11).

rExendin-4

With the rapid increase in population with diabetes, it is expected that in the expenditure on diabetes treatment in the PRC will increase to RMB 170 billion in 2010. Diabetes drugs are one of the fastest growing segments in the pharmaceutical market, increased by 40% in 2004 and accounting for 20% of all prescription drugs. In the PRC, the pharmaceutical market size is estimated to be about US\$23-50 billion.

rExendin-4 is a non-insulin antidiabetic treatment that stimulates the incretin pathway (a distinct mechanism of action) is drawing attention in the medical community and have received the approval from State Food and Drug Administration in the PRC ("SFDA") for clinical trials. Patient dosing began in July 2006 and Phase I preliminary data has been promising.

Approved as Class I prescription new drug and with nominal side effects, rExendin 4 stimulates the body's ability to produce insulin in response to elevated levels of blood glucose, inhibits the release of glucagon following meals and slows the rate glucose are absorbed into the bloodstream. This new generation drug will be an effective treatment for Type 2 diabetes.

rhIL-11

rhIL-11 is currently under Phase 3 clinical trials approved by the SFDA for the treatment of chemotherapy-induced thrombocytopenia and is expected to be launched by the mid of 2007. rhIL-11 is a Class II prescription new drug that stimulates human body to make platelets, which are a type of blood cell. It is suitable for patients who have received certain types of chemotherapy and is used to help prevent the number of platelets circulating in the blood from dropping dangerously low causing the patient encounter difficulty in blood clotting when injured.

rhIL-11 may reduce the need for platelet transfusions after chemotherapy. A study shows that after applying the drug to non-myelosuppressed cancer patients, platelet counts increased significantly. Upon cessation of the treatment, platelet counts continued to increase for up to 7 days then returned to baseline within 14 days. Besides treating chemotherapy-induced thrombocytopenia, rhIL-11 also shows to have a variety of non-haematological actions such as stimulation of osteoclast development, inhibition of proliferation of adipocytes, protection of the gastrointestinal mucosa and induction of acute phase response proteins and rheumatoid arthritis.

rhPTH 1-34

Another bio-pharmaceutical product of the Group is rhPTH 1-34 which has been granted approval at Phase II clinical trials as a Class II prescription new drug. It is a type of bone-active agent that primarily works by stimulating new bone formation on quiescent bone surface that is not simultaneously undergoing remodeling. It increases bone mass to a greater degree than just filling in the bone remodeling space.

Osteoporosis is a worldwide epidemic. In 2005, the affected population in the PRC with osteoporosis is approximately 90 million (almost 10% of the country's population). The severe prevalence of this disease is partly due to the dietary habit (lack of calcium). rhPTH 1-34 has the potential to restore bone mass, bringing it back towards normal, and may reduce the risk of osteoporotic fracture more than currently available antiresorptive agents.

According to the preliminary information gathered, the daily treatment with rhPTH 1-34 is expected to reduce the risk of new vertebral fractures by about 65% and the risk of non-vertebral fractures by about 35% in the group treated with rhPTH 1-34 as compared with the group treated with placebo.

Future Prospects

The key growth driver for the Group is a diversified product portfolio and a low cost to high premium mix, in which the research and development ("R&D") cost is only 3-5% of the counterparts in USA. Also, the Group aims at reaping huge profits from the huge domestic market for diabetes drugs. The Group would expect to increase the number of distributed products to 100 by 2007 and expand the sales and distribution coverage. The corporate strategy is to adopt vertical intergration by integrating production process, R&D and manufacturing so as to enable the Group to become a leading player in the biotechnology industry in the PRC. The completion of acquisition of Nan Hoo Group in December 2006 with its GMP compliant manufacture facilities will be another quantum leap for the Group to achieve such objective. In order to focus on the biopharmaceutical field, the Group is actively re-evaluating its existing business operations and committed to considering the feasibility of downsizing or (if suitable opportunities arise) divesting its operations in the manufacturing and trading of packaging products, paper gift items and promotional products by October 2007.

Liquidity and Financial Resources

The shares issued during the period in connection with the open offer in April 2006, the acquisition of FUTL Group in June 2006 and the Placement in August 2006 has significantly strengthened the liquidity and financial resources of the Group.

At 30 September 2006, the Group's bank deposits, bank balances and cash amounted to HK\$296,757,000 and bank and other borrowings amounted to HK\$154,678,000 (including convertible bonds of HK\$93,743,000) At 30 September 2006, the Group has assets of approximately HK\$925,092,000. Current assets of the Group at 30 September 2006 amounted to approximately HK\$419,479,000 while current liabilities were HK\$77,386,000. The gearing ratio, calculated by dividing the total debts over its total assets, was 17%.

The Group's major interest and operations are in the PRC. The Group also contracts with suppliers for goods and services that are denominated in Renminbi. The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and Renminbi is controlled within a narrow range. However, any permanent changes in foreign exchange rates in Renminbi may have an impact on the Group's results.

Pledge of Assets

At 30 September 2006, the Group's banking facilities were secured by bank deposits of HK\$13,311,000 (At 31 March 2006: HK\$13,040,000).

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the period under review.

Employment and Remuneration Policy

At 30 September 2006, the Group employed a total of 650 employees, including approximately 610 employees in the PRC production sites and approximately 40 employees in Hong Kong. An additional work force of approximately 850 were provided by Sha Jing factory in the production facilities in Sha Jing under a processing agreement. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on performance. Share options may also be granted to staff with reference to the individual's performance.