

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 2001 except as disclosed below.

The Group has adopted the following new Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2001:

SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention and have been prepared in accordance with SSAP 25 "Interim Financial Reporting".

2. Turnover and Segmental Information

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, and after elimination of all significant intra-group transactions.

An analysis of turnover is as follows:

	(Unaudited) For the six months ended 30 September	
	2001 HK\$'000	2000 HK\$'000
Products distributed by the Group	33,872	24,141
Products manufactured by the Group	29,798	28,133
	<u>63,670</u>	<u>52,274</u>

An analysis of profit before tax is as follows:

	(Unaudited) For the six months ended 30 September	
	2001	2000
	HK\$'000	HK\$'000
Products distributed by the Group	6,942	1,244
Products manufactured by the Group	13,477	7,116
	<u>20,419</u>	<u>8,360</u>

The Group's turnover and contribution to profit before tax were derived from operations in relation to customers located in the People's Republic of China (the "PRC").

3. 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	
	2001	2000
	HK\$'000	HK\$'000
Cost of inventories sold	29,207	29,283
Staff costs (excluding directors' remuneration)	5,410	4,907
Directors' remuneration	1,240	1,968
Depreciation	1,765	1,472
Operating lease rentals in respect of land and buildings	676	686
Exchange losses, net	235	684
Amortisation of intangible assets	493	287
Interest income on bank balances	(951)	(450)

Cost of inventories sold includes HK\$916,000 (2000: HK\$943,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

4. Finance Costs

		(Unaudited) For the six months ended 30 September	
		2001	2000
		HK\$'000	HK\$'000
Interest expense on:			
Bank overdrafts and loans wholly repayable within five years	703		637
Other loan	–		253
Due to minority equity holders of subsidiaries	108		–
	<u>811</u>		<u>890</u>

5. Tax

		(Unaudited) For the six months ended 30 September	
		2001	2000
		HK\$'000	HK\$'000
Current:			
Hong Kong	–		31
Outside Hong Kong	2,511		885
	<u>2,511</u>		<u>916</u>
Tax charge for the period		<u>2,511</u>	<u>916</u>

No provision for Hong Kong profits tax has been provided (six months ended 30 September 2000: provided at the rate of 16%) because the Group did not generate any assessable profits arising in Hong Kong during the period ended 30 September 2001. Taxes on profits of subsidiaries operating outside Hong Kong during the period have been calculated at the rates of the tax applicable in the respective jurisdictions, based on existing legislation, interpretations and practices.

No deferred tax has been provided (31 March 2001: Nil) because the Group had no significant timing differences at balance sheet date.

6. Dividend

The Directors do not recommend the payment of any interim dividend for the period (2000: Nil).

7. Earnings Per Share

Basic

The calculation is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$16,272,000 (2000: HK\$5,895,000) on the weighted average of 1,900,000,000 (2000: 1,900,000,000) ordinary shares in issue during the period.

Diluted

Diluted earnings per share for the periods have not been calculated as no dilutive events existed during the respective periods.

8. Accounts Receivable

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 120 days of issuance, except for certain well-established customers, where the terms are extended. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The ages of the Group's accounts receivable are analysed as follows:

	(Unaudited) At 30 September 2001 HK\$'000	(Audited) At 31 March 2000 HK\$'000
Outstanding balances with ages:		
Within 90 days	41,742	57,881
Between 91 to 180 days	8,641	9,310
Between 181 to 365 days	6,290	8,283
Between 1 to 2 years	5,510	3,171
Over 2 years	5,442	7,129
	<hr/>	<hr/>
	67,625	85,774
Less: Provision for bad and doubtful debts	(7,399)	(10,980)
	<hr/>	<hr/>
	60,226	74,794
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9. Accounts and Bills Payable

The ages of the Group's accounts and bills payable are analysed as follows:

	(Unaudited) At 30 September 2001	(Audited) At 31 March 2000
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 90 days	1,876	1,641
Between 91 to 180 days	9	2,231
Between 181 to 365 days	219	–
Over 1 year	77	76
	<u>2,181</u>	<u>3,948</u>

10. Due to Minority Equity Holders of Subsidiaries

The current portion of the amounts due to minority equity holders of subsidiaries of HK\$2,770,000 (31 March 2001: HK\$2,402,000) is unsecured, bears interest at 12% per annum (2000: interest-free) and is repayable on demand. The long term portion of the amount due to a minority equity holder of a subsidiary of HK\$9,091,000 (31 March 2001: HK\$9,091,000) is unsecured, interest-free and repayable on 21 April 2014.

11. Banking Facilities

At 30 September 2001, the Group's banking facilities were supported by the following:

- fixed deposits of approximately HK\$18.3 million (31 March 2001: HK\$13.3 million) of certain of its subsidiaries; and
- corporate guarantees from the Company and certain of its subsidiaries.

12. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2001 (Audited)	19,321	1,192	4,839	74,778	100,130
Net profit for the period (unaudited)	—	—	—	16,272	16,272
At 30 September 2001 (unaudited)	19,321	1,192	4,839	91,050	116,402

13. Contingent Liabilities

As at 30 September 2001, the Group had no significant contingent liabilities (31 March 2001: Nil).

14. Commitments

At the balance sheet date, the Group had the following commitments in respect of the construction of a new manufacturing plant in the PRC:

	(Unaudited) At 30 September 2001 HK\$'000	(Audited) At 31 March 2000 HK\$'000
Contracted for	6,986	3,000
Authorised but not contracted for	16,301	29,455
	23,287	32,455

15. Related Party Transactions

During the period ended 30 September 2001, the Group had the following transactions with the following related parties:

		(Unaudited) For the six months ended 30 September 2001 HK\$'000	2000 HK\$'000
	Notes		
Rental expenses to Extrawell Holdings Limited ("EHL")	(a)	405	351
Interest expense to minority equity holders of subsidiaries	(b)	108	—

Notes:

- (a) The rental expenses paid to EHL, a company in which certain directors and/or beneficial shareholders of the Company have beneficial interests therein, were determined by the Directors with reference to the then market conditions and after obtaining independent opinion from a professional valuer.
- (b) Interest expense to minority equity holders of subsidiaries arose from amounts due to minority equity holders of subsidiaries of HK\$2,770,000 which bear interest at 12% per annum.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 September 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as set out below:

Number of Name	Notes	Type of Interest	Ordinary shares held
Ho Yu Ling	(a)	Corporate	440,000,000
Mao Yu Min	(b)	Corporate	500,000,000
Xie Yi	(b)	Corporate	500,000,000
Li Qiang		Personal	15,000,000

Notes:

- (a) These shares are beneficially 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.
- (b) These shares are beneficially owned by JNJ Investments Ltd, a company incorporated in the British Virgin Islands. Details of the interests of Dr. Mao Yu Min and Dr. Xie Yi in JNJ Investments Ltd are set out under "SUBSTANTIAL SHAREHOLDERS" below in this interim financial report.

Save as disclosed above, as at 30 September 2001, none of the directors, chief executives or their associates, had any personal, family, corporate or other beneficial interests in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 16 January 1999, the board of directors of the Company is authorised, at its absolute discretion, to grant options to employees, including executive directors, of the Company or any of its subsidiaries, to subscribe for shares in the Company. Further details of the Scheme are set out under "EMPLOYMENT AND REMUNERATION POLICY" in this interim financial report. The granting of options under the Scheme is also subject to the provisions set out in Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the latest amendments to which have become effective on 1 September 2001. Up to the date of approval of the interim financial report, no options have been granted to any director or employee under the Scheme.

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Notes	Number of ordinary shares held	Percentage of issued shares
JNJ Investments Ltd ("JNJ")	(a)	500,000,000	26.32%
Well Success Limited	(b)	440,000,000	23.16%
Wang Yan Wei		214,000,000	11.26%

Notes:

- (a) The entire issued share capital of JNJ is beneficially owned by BioWindow Gene Development (Hong Kong) Limited ("HK BioWindow"), a company incorporated in Hong Kong with limited liability. The issued share capital of HK BioWindow is 99%-owned by Shanghai BioWindow Gene Development Limited ("Shanghai BioWindow"), a company incorporated in the PRC with limited liability. The capital of Shanghai BioWindow is 60%-owned by United Gene Holdings Limited and 13.575%-owned by Dr. Xie Yi. The capital of United Gene Holdings Limited in turn is 33.5% beneficially owned by Dr. Mao Yu Min and 33.5% beneficially owned Dr. Xie Yi.
- (b) The entire issued share capital of Well Success Limited is beneficially owned by Mr. Ho Yu Ling.

Saved as disclosed above, as at 30 September 2001, no other party was recorded as having an interest of 10% or more of the issued capital of the Company in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group continued its growth momentum from the last financial year into the first half of the current year with consolidated revenue and profitability growing in a dynamic manner.

Robust Growth in Turnover

The Group has overcome the temporary distribution disruption caused by licence renewal delays and production disruption caused by test running of manufacturing facilities experienced in the six months ended 30 September 2000 (the "2000 Interim Period"). Revenue grew by 21.8% with turnover increased from approximately HK\$52.3 million for the 2000 Interim Period to turnover of approximately HK\$63.7million for the six months ended 30 September 2001 (the "2001 Interim Period").

Significant Improvement in Profit Margin

Gross profit for the 2001 Interim Period was approximately HK\$34.5 million, representing a 50.0% growth from the 2000 Interim Period of approximately HK\$23.0 million. The significant growth in gross profit is attributable to the increase in turnover and improved gross profit margin, from 44.0% in the 2000 Interim Period to 54.1% in the 2001 Interim Period. The Group continued its thorough process of product rationalization and operation efficiency review by directing distribution and marketing resources to high profit margin products for both distribution and manufacturing segments.

Improvement in Credit Control

The Group organized training programs for the sales and marketing personnel to provide knowledge and skills for credit control functions. New customer-resource management software were also installed to facilitate greater assistance in debt collection and identifying possible delinquent customers.

Distribution of Imported Ethical Drugs

Turnover in the distribution sector saw significant increment attributed by the strategy of focusing on high margin-high growth potential products, in particular, a specialty drug for the Central Nervous System. The turnover for distribution of imported products was approximately HK\$33.9 million in the 2001 Interim Period, representing an increase of 40.7% from the 2000 Interim Period.

Thirty product promotion symposiums in major cities as well as second tier cities and towns have been conducted. The Central Nervous System drugs have succeeded in gaining greater recognition amongst medical academia and medical doctors, who have strong influence over the application of specialty drugs. Resources have also been directed to extend coverage to new areas in Ningxia, Inner Mongolia, Guangxi and Jiangxi Provinces in the PRC.

Profit before tax for distribution of imported products increased from approximately HK\$1.2 million to approximately HK\$6.9 million. Both profit contribution and profit margin were exceptionally low during the 2000 Interim Period due to idle periods caused by supply disruptions. Marketing resources have been directed to higher profit margin products rather than sales of medical equipment, a relatively lower margin product group. The increase in sales and profit margin from the Central Nervous System drug has offset the effect of decreased sales and profit contributions from medical equipment. This tactical change of product mix has resulted in a net increase in the total gross profit and gross profit margin.

Ethical and Biological Drugs Manufacturing

Sales in the manufacturing sector also experienced growth of 6.0% with turnover increased from approximately HK\$28.1 million in the 2000 Interim Period to approximately HK\$29.8 million in the 2001 Interim Period. Profit before tax increased from approximately HK\$7.1 million in the 2000 Interim Period to HK\$13.5 million in the 2001 Interim Period.

The Anti-thrombotic product, Sodium Ozagrel is one of the major contributors to the Group's turnover and profits in the manufacturing segment. Immunological drugs continue to record strong turnover attributed to strong market recognition. The Group has invested substantially in promotional activities during the 2001 Interim Period for its products as well as its image as a quality pharmaceutical manufacturer of specialty drugs in the PRC.

The Group currently has two joint ventures with manufacturing facilities in Changchun, Jilin Province, the PRC. A new factory built to meet Good Manufacturing Practices ("GMP") standard is scheduled to be completed early next year. The new factory is well equipped with various facilities for the production of pharmaceutical preparations in the forms of injections and oral solutions. The application for GMP certification is currently in progress. The completed factory will boost production capacity of the Group by approximately two fold. The manufacturing segment is anticipated to continue its growth in contribution to the Group.