(c) Code provision A4.2 stipulates that every director should be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the Directors shall retire from office by rotation provided that the Chairman, Deputy Chairman or managing Director shall not 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. The rotation methodology ensures a reasonable continuity of directorship which is to the best interest of the Company's shareholders.

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 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

Sales and Gross Profit

Following the revitalising year of 2005/6, we have experienced a dynamic business environment and at the same time a demanding market in the first half of 2006/7.

The consolidated turnover of the Group for six months ended 30 September 2006 (the "2006 Interim Period") was approximately HK$69.0 million, represented a slight drop of approximately HK$1.5 million or 2.1% from approximately HK$70.5 million in the six months ended 30 September 2005 (the "2005 Interim Period"). This result is composed of the mild growth in the trading sector (Imported Pharmaceuticals Sector) and a decrease in sales in the manufacturing sector (Manufactured Pharmaceuticals Sector) due to keen competitions in the market.

The consolidated gross profit of the Group for 2006 Interim Period was approximately HK$20.0 million, represented by a drop of approximately HK$3.4 million from approximately HK$23.4 million in 2005 Interim Period. The drop in gross profit was mainly due to the drop of gross profit margin in the Manufactured Pharmaceuticals Sector.

Despite the drop in gross profit, the total profit attributable to equity holders of the Company has doubled from approximately HK$0.7 million in last interim period to approximately HK$1.3 million in current interim period. The increase was mainly attributable to lower other operating expenses and our finance costs. The overall selling and distribution costs and administrative expenses were properly controlled according to our budgets. The slight increase in administrative expenses of approximately HK$0.6 million in the current period has been offset by the decrease in selling and distribution costs of approximately HK$0.3 million. The other operating expenses represented an impairment loss on land and buildings of HK$2 million in last interim period. The lower of other operating expenses in the current interim period was due to such impairment provision is not required in the current interim period. Finance cost has also been declined from HK$0.8 million in last interim period to HK$0.1 million in the current interim period.

Imported Pharmaceuticals Sector

Thanks to our devoted and enthusiastic sales team and the distinguish quality of our products, sales of imported pharmaceutical products has been back on the right track of growth. Sales of imported pharmaceuticals successfully rebounced by 4.0% from approximately HK$49.7 million for 2005 Interim Period to approximately HK$51.7 million for 2006 Interim Period. The segment profit of this sector recorded an increase from approximately HK$4.9 million in 2005 Interim Period to approximately HK$5.6 million in 2006 Interim Period.

Our leading product, GM-1, a specialised prescription drug for central nervous system, continued to be well-received in the market and has achieved a stable sale in the current interim period. In previous years, we have introduced to the PRC market an internationally renowned product, Skin-cap Spray. Skin-cap Spray, being the most effective and efficient treatment for cases of psoriasis, dandruff, seborrheic dermatitis, atopic dermatitis, eczema and some tinea, also achieved a promising growth in sales in the current interim period.

Manufactured Pharmaceuticals Sector

Due to the competitive market conditions, the manufactured pharmaceutical products have experienced a rival period. Turnover of this sector has declined by approximately HK$3.4 million from approximately HK$20.7 million in 2005 Interim Period to approximately HK$17.3 million in 2006 Interim Period. As such, the segment result recorded a loss of approximately HK$1.9 million, representing a decrease of profit by approximately HK$3.8 million from a segment profit of approximately HK$1.9 million in 2005 Interim Period.

Due to severe market competition, some of our products have lowered the selling price in order to remain competitive. The drop in profit margin caused by the price cut was partly compensated by a decrease in selling costs. Nevertheless, one of our leading products, P-Transfer Factor (a product which improves the health and immunity of human bodies with successful experience against the threats of SARS infection), is able to maintain a strong and stable sales trend in the current interim period. In addition, the Group is confident in the new products launched in the current period such as Saponins, extracts from Ginseng, which are raw materials or intermediates widely used in the production of pharmaceuticals, health care and cosmetic products. The product has been well received by customers and expecting a continuous upward sales trend in the coming period.

Oral Insulin Sector

The Group, with the cooperation of Tsinghua University, is developing a new oral insulin medicine. Instead of traditional forms of insulin treatment such as injection, the new medicine allows diabetic patients to receive insulin treatment in the form of oral capsule which is the first medicine by which insulin can be almost successfully absorbed through the digestive system.

Currently, the Group has completed the phase II clinical trial and has submitted the results thereof to the SFDA.

Gene Development Sector

Following the strategic decision of suspension of gene development research in the prior years, no sale has been recorded in the Gene Development Sector for the current and last interim period and the Group only maintained minimal corporate and managerial costs for this sector.

Decrease in Group's Selling and Distribution Costs

Selling and distribution costs have decreased by approximately HK$0.3 million from approximately HK$7.1 million in 2005 Interim Period to approximately HK$6.8 million in 2006 Interim Period which is mainly due to the change in marketing strategy resulting in a decrease in selling and distribution costs.

Increase in Group's Administrative Expenses

Administrative expenses have slightly increased by approximately HK$0.6 million from approximately HK$11.4 million in 2005 Interim Period to approximately HK$12.0 million in 2006 Interim Period following to an increase in our headcounts and staff costs. The increases are in line with our budgets.

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. There is no seasonal and cyclical factor for its borrowing requirements.

Financial Review

The Group generally finances its operations with internally generated cash flow and facilities granted by its principal bankers in Hong Kong. Its principal bankers are Industrial and Commercial Bank of China (Asia) Limited, Malayan Banking Berhad, The Bank of East Asia, Limited, Dah Sing Bank, Limited and DBS Bank (Hong Kong) Limited. As at 30 September 2006, the Group had total cash and bank balances of about HK$56.1 million (31 March 2006: HK$55.0 million).

The Group has kept its borrowing at a minimal level. As at 30 September 2006, the Group's had bank borrowings of approximately HK$3.1 million (31 March 2006: HK$4.6 million), representing a 32.6% decrease from that of 31 March 2006. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$7.4 million (31 March 2006: HK$7.3 million) and corporate guarantees from the Company and certain subsidiaries of the Company. All those bank borrowings are interest-bearing at the prevailing market rates and repayable within one year or on demand.

Included in the amount due to minority shareholder of about HK$32.4 million (31 March 2006: HK$32.4 million) was an amount of about HK$31.8 million (31 March 2006: HK$31.8 million) which is a payable acquired during our acquisition of a subsidiary, Smart Ascent. This payable was representing the outstanding consideration payable by Smart Ascent during its acquisition for its subsidiary, Fosse Bio. Since the vendors of Smart Ascent have agreed to assume these liabilities when they fall due, a receivable of the equivalent amount was included in "Prepayments, deposits and other receivables" under current assets. Accordingly, the said amount due to a minority shareholder did not have any impact to the net current assets position nor the future cash flow of the Group and the amount was excluded in calculating the Group's gearing ratio.

As at 30 September 2006, the gearing ratio was 0.01 (31 March 2006: 0.01), calculated based on the Group's total debts of approximately HK$3.7 million (31 March 2006: HK$5.2 million), comprising bank borrowings of about HK$3.1 million (31 March 2006: HK$4.6 million) and net amount of due to a minority shareholder of about HK$0.6 million (31 March 2006: HK$0.6 million), over the Group's total assets of about HK$567.2 million (31 March 2006: HK$571.3 million). The gearing ratio would be 0.06 (31 March 2006: 0.06) if the said consideration payable of about HK$31.8 million (31 March 2006: HK$31.8 million) was included in the gearing ratio calculation.

All borrowings are recorded in Hong Kong dollars. The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including bank 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.

Except as mentioned above, there were no significant changes in loan structure of the Group during the period.

Contingent Liabilities

As at 30 September 2006, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of approximately HK$38,000,000 (31 March 2006: HK$38,000,000). These banking facilities had been utilised to the extent of approximately HK$6,650,000 (31 March 2006: approximately HK$10,600,000) as at the balance sheet. The decrease was due to the appropriation of surplus fund to pay up the outstanding banking facilities during the period in order to minimize finance costs incurred.

As at 30 September 2006, the Company also provided corporate guarantee in favour of 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 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year ended 31 March 2005.

The Group did not have any bills discounted with recourse as at 30 September 2006. Bill discounted with recourse as at 31 March 2006 was approximately HK$11,175,000. The decrease was due to the appropriation of surplus fund to pay up the outstanding banking facilities during the period in order to minimize finance costs incurred.

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

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2006, the Group had 382 employees (31 March 2006: 376). Staff costs excluding directors' remuneration for the six months ended 30 September 2006 amounted to approximately HK$6.4 million (six months ended 2005: approximately HK$6.2 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.