Genex Pharmaceutical, Inc.
Form 10QSB
November 21, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2005

OR

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _______ to _______

Commission file

333-102118 Number

GENEX PHARMACEUTICAL, INC.

(Name of Small Business Issuer in Its Charter)

Delaware	**98-0383571**
(State or other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)
1801 Guangyin Building, Youyibeilu,	
Hexi District, Tianjin City, China	**300074**
(Address of Principal Executive Offices)	(Zip Code)

86 22 23370440
(Issuer's Telephone Number, Including Area Code)

K S E-Media Holdings, Inc
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.

Yes X No ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No X

APPLICABLE ONLY TO CORPORATE COMPANY

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of November 11, 2005 there were 17,845,732 shares outstanding.

Transitional Small Business Disclosure Format (check one):

Yes ____ No __X__

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

GENEX PHARMACEUTICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2005

(Unaudited)

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	189,342
Accounts receivables, net of allowance of $46,497		965,593
Inventories		536,032
Due from related parties		2,132,914
Total current assets		3,823,881
Property, plant and equipment, net		187,338
Technological know-how, net		80,969
	$	4,092,188
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	291,346
Advances from customers		313,677
Due to shareholder		35,076
Due to related parties		29,521
Total current liabilities		669,620
STOCKHOLDERS' EQUITY		
Preferred stock; $0.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding		-
Common stock; $ 0.0001 par value; 30,000,000 shares authorized, 17,845,732 shares issued and outstanding		1,785
Additional paid-in capital		1,146,945
Reserve funds		341,691
Retained earnings		1,866,252
Cumulative other comprehensive income		65,895
Stockholders' equity		3,422,568
	$	4,092,188

See notes to condensed unaudited consolidated financial statements.

GENEX PHARMACEUTICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months periods Ended September 30		For the nine months periods Ended September 30	
	2005	2004	2005	2004
Net Sales	$ 715,643	$ 741,353	$ 1,664,577	$ 1,598,770
Cost of sales	(65,443)	(76,093)	(165,199)	(175,470)
Gross profit	650,200	665,260	1,499,378	1,423,300
Selling and marketing expenses	(119,559)	(185,699)	(343,748)	(455,285)
General and administrative expenses	(200,381)	(103,203)	(466,468)	(374,013)
Income from operations	330,260	376,358	689,162	594,002
Other income (expenses)				
Interest income (expenses), net	21,210	11,053	50,790	13,392
Other income (expenses), net	1	(115)	3,746	(1,503)
Total other income (expenses)	21,211	10,938	54,536	11,889
Net income	$ 351,471	$ 387,296	$ 743,698	$ 605,891
Weighted average shares outstanding				
Basic and diluted	17,845,732	17,845,732	17,845,732	17,845,732
Basic and diluted net income per share	$ 0.02	$ 0.02	$ 0.04	$ 0.03

See notes to condensed unaudited consolidated financial statements.

GENEX PHARMACEUTICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2005 AND 2004
(Unaudited)

		2005		2004
CASH FLOW FROM OPERATING ACTIVITIES				
Net income	$	743,698	$	605,891
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expenses		52,935		54,708
Changes in operating assets and liabilities:				
Increase in accounts and other receivables		(276,806)		(413,958)
(Increase) / decrease in inventories		(13,279)		37,875
Increase in accounts payable and accrued liabilities		91,345		52,897
Increase in customers deposits		237,528		44,770
Net cash provided by operating activities		835,421		382,183
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for purchase of property, plant and equipment		-		(6,110)
Payment for acquisition of technical know-how		(86,312)		-
Net cash used in investing activities		(86,312)		(6,110)
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans to related parties		(962,214)		(145,606)
Loans from related parties		14,262		8,432
Net cash used in financing activities		(947,952)		(137,174)
Effect of exchange rate changes on cash and cash equivalents		62,190		-
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(136,653)		238,899
Cash and cash equivalents, at beginning of period		325,995		242,059
Cash and cash equivalents, at end of period	$	189,342	$	480,958

See notes to condensed unaudited consolidated financial statements.

GENEX PHARMACEUTICAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2005 AND 2004
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BUSINESS COMBINATION

Tianjin Zhongjin Biology Development Co., Ltd. ("TZBD") was founded in the People's Republic of China on February 10, 2003. TZBD is located in the Tianjin Economic and Technological Development Zone in the People's Republic of China. The business license of TZBD was issued by Tianjin Industrial and Commercial Administration on February 10, 2003. The operating period of the business license is from February 10, 2003 to February 9, 2053. TZBD is primarily engaged in production and sales of Reconstituted Bone Xenograft ("RBX") in the People's Republic of China. All of the customers are hospitals in People's Republic of China. Marketing is either through distributors or through TZBD's sales offices in various cities in China.

On June 17, 2004, TZBD consummated a share purchase agreement with KS E-Media Holdings, Inc. ("KSE"), a Delaware corporation, under which TZBD shareholders sold 100% undivided interest in TZBD to KSE, in exchange for 3,658,375 shares of KSE. As a part of the agreement, KSE cancelled 2,212,500 shares of its issued and outstanding stock owned by its former president. Within ten (10) days from the Closing Date, KS E-Media effectuated a four-for-one forward split of the KS E-Media Common Shares by way of stock dividend. On June 17, 2004, KSE was renamed Genex Pharmaceutical, Inc.

KSE was incorporated in the State of Delaware on February 28, 2002. Through June 17, 2004, KSE was considered a development stage company as defined by Statement of Financial Accounting Standard ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises". KSE was a start-up stage Internet based fulfillment company based in Vancouver, BC, Canada. KSE filed a SB-2 Registration Statement with the United States Securities and Exchange Commission ("SEC") on December 23, 2002 that was declared effective May 7, 2003.

According to the terms of the share exchange agreement, control of the combined companies (the "Company") passed to the former shareholders of TZBD. This type of share exchange has been treated as a capital transaction accompanied by recapitalization of TZBD in substance, rather than a business combination, and is deemed a "reverse acquisition" for accounting purposes.

CHANGE IN REGISTRATION LOCATION:

The Company changed its registration location from Tianjin economic and technological development district to Tianjin Xiqing economic development district. The change in registration took place on March 5, 2004.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements at and for the nine months period ended September 30, 2005 include the accounts of TZBD and its parent company, KSE (legal acquirer), from the date of acquisition. The historical financial statements prior to the date of recapitalization include the accounts of TZBD only. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods are not necessarily indicative of the results for any future period. These statements should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 2004.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those results.

Accounts receivable and allowance for doubtful accounts

The Company uses the allowance method to account for uncollectible accounts receivable. The Company periodically adjusts the allowance for doubtful accounts based on management's continuing review of accounts receivable. This analysis by management is based on the composition of accounts receivable, analysis of historical bad debts, customer concentrations, customer credit worthiness, an analysis of current economic and business trends as well as changes in customer payment patterns. Terms of the sales vary from COD through a credit term up to 6 to 9 months.

The Company records a full allowance for accounts receivable that have been determined legally to be uncollectible. For accounts receivable that have been outstanding for over 180 days, the Company determines an appropriate allowance based on individual circumstances.

As of September 30, 2005, there is a general allowance of $46,497 for doubtful and long overdue accounts.

Technological know-how

Purchased technological know-how includes secret formulas, manufacturing processes, technical and procedural manuals and is amortized using the straight-line method over the expected useful economic life of 5 years, which reflects the period over which those formulas, manufacturing processes, technical and procedural manuals are kept secret to the Company as agreed between the Company and the selling party. Amortization expense was $5,258 for the three months period ended September 30, 2005.

Impairment

The Company accounts for property and equipment and amortizable intangible assets in accordance with SFAS No. 121, Accounting for Impairment of Long-Lived Assets to be Disposed Of which requires an impairment loss to be recognized on long-lived assets when the sum of the expected future cash flows (undiscounted and without interest charges) resulting from the use of the assets and its eventual disposition is less than the carrying amount of the asset. Otherwise, an impairment loss is not recognized. Measurement of the impairment loss for long-lived assets is based on the fair value of the asset.

Income taxes

The Company accounts for income tax using Statements of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes". SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. No provision for deferred taxation has been made, as there are no temporary differences at the balance sheet date.

According to the Provisional Regulations of the People's Republic of China on Income Tax, the document of Reductions and Exemptions of Income Tax for the Company has been approved by the local tax bureau and the Management Regulation of Tianjin Economic and Technological Development Zone. The Company is exempted from income tax in its first two years of operations from June 2003 to May 2005. The Company's subsidiary will be subject to Enterprise Income Tax in the PRC at a rate of 33% on net income upon the expiry of the tax holiday. However, the local tax bureau has continued to exempt TZBD from Enterprise Income Tax though no official notice has been issued. Management considered that the Company would be liable to pay Enterprise Income Tax of $153,314 approximately if there is no tax exemption granted to the Company's subsidiary.

Foreign currency translation

Assets and liabilities in foreign currency at the balance sheet date are translated at the exchange rate prevailing at that date. Revenue and expenses are translated at the average exchange rate, which approximates the actual rate prevailing on the date of the transaction. Transaction gains and losses are reflected in the income statement. Gains and losses arising from translation of foreign currency financial statements are reflected as a component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company is the Chinese Renminbi. The unit of Renminbi is in Yuan.

On July 22, 2005, the PRC government revalued Renminbi and announced a change in its currency policy to allow Renminbi to float against a basket of currencies. However, it does not imply free convertibility of Renminbi to other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rate quoted by the People's Bank of China. Approval of foreign currency payments by the Bank of China or other institutions require submitting a payment application form together with invoices, shipping documents and signed contracts.

Income statement accounts are translated at the single average nine-month ended exchange rate of US$1.00 to RMB8.24118. The translation of amounts of balance sheet items except for the paid-up capital (historical exchange rate is US1.00 to RMB8.27), is made at the single rate of exchange of US$1.00 to RMB 8.1101 at September 30, 2005. Cumulative translation adjustments, which are reported as components of cumulative other comprehensive income, are US$65,895 for the nine months period ended September 30, 2005.

Revenue recognition

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) 104. Revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are met as unearned revenue.

Stock based compensation

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. SFAS No. 123 requires compensation expense to be recorded (i) using the new fair value method or (ii) using the existing accounting rules prescribed by Accounting Principles Board Opinion No. 25, "Accounting for stock issued to employees" (APB25) and related interpretations with proforma disclosure of what net income and earnings per share would have been had we adopted the new fair value method. Through September 30, 2005, the Company has not granted any stock options.

Recent accounting pronouncements

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the Company's second quarter of fiscal 2006. The Company believes that the adoption of this standard will have no material impact on its financial statements.

In December 2004, the FASB issued SFAS Statement No. 153, "Exchanges of Non-monetary Assets." The Statement is an amendment of APB Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Company believes that the adoption of this standard will have no material impact on its financial statements.

In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Management believes the adoption of this pronouncement will not have a material effect on our consolidated financial statements.

3. DUE FROM / TO RELATED PARTIES

The Company advanced cash to parties related through common shareholders during the nine months period ended September 30, 2005. Out of total of $2,132,914, $423,104 is interest-free, unsecured and due on demand. The remaining $1,709,810 bears an interest rate of 6% per annum and is also unsecured. The due dates for repayment of the said amount were as follows:

Due for repayment on March 31, 2006	$	752,272
Due for repayment on April 30, 2006		265,182
Due for repayment on May 31, 2006		518,128
Due for repayment on June 30, 2006		75,092
Due for repayment on August 31, 2006		99,136
	$	1,709,810

Total interest income on the loans for the nine months period ended September 30, 2005 amounted to $50,145.

During the nine months period ended September 30, 2005, the Company borrowed cash from a shareholder and certain parties related to shareholders, amounting to $35,075 and $29,519 respectively. The amounts are interest free, due on demand and unsecured.

4. MAJOR CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

The Company's two main customers are medical device resellers: the Shanghai Yicheng Medical Device Company is TZBD's largest customer and the second largest is Anhui Hefei Jialian Medical Appliance Company. The aforementioned customers have each signed a three-year letter of intent for RBX deliveries from 2004 through 2006, amounting to $1,425,000 in sales, although these agreements are not binding. The Company recognizes the importance of the medical device resellers for increasing sales and continues to establish new links with medical device companies throughout China. The Company's medical device customers represent 28% of all sales, and direct sales to hospitals and doctors account for 72% of all sales, in the nine months of 2005.

Five vendors provided 58% of the Company's raw materials for the nine months period ended September 30, 2005. The future profitability of the Company will be dependent upon the Company's abilities to purchase the raw materials at favorable terms.

5. RELATED PARTY TRANSACTIONS

The Company advanced cash to parties related through common shareholders during the nine months period ended September 30, 2005. Out of total of $2,132,914, $423,104 is interest-free, unsecured and due on demand. The remaining $1,709,810 bears an interest rate of 6% per annum and is also unsecured. During the nine months period ended September 30, 2005. Total interest income on the loans for the nine months period ended September 30, 2005 amounted to $50,145.

The Company recorded rental expenses payable to related parties, related through common shareholders, amounting to $13,055.

The Company recorded consulting fee expenses payable to a related party, related through common shareholders, amounting to $35,636.

During the nine months period ended September 30, 2005, the Company borrowed cash from a shareholder and certain parties related to shareholders, amounting to $35,075 and $29,519 respectively. The amounts are interest free, due on demand and unsecured.

6. STATUTORY COMMON WELFARE FUND

As stipulated by the Company Law of the People's Republic of China ("PRC"), net income after taxation can only be distributed as dividends after appropriation has been made for the following:

(i) Making up cumulative prior years' losses, if any;

(ii) Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;

(iii) Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

(iv) Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

The Company established a reserve for the annual contribution of 5% of net income to the welfare fund. The amount allocated to the statutory reserve for the nine months period ended September 30, 2005 amounted to $37,185.

7. STATUTORY RESERVE

In accordance with the *Chinese Company Law*, the Company has allocated 10% of its annual net income, amounting $74,370, as statutory reserve on September 30, 2005.

8. COMMITMENTS

Operating leases

The Company is renting its production facility and its administrative offices from parties related through a major shareholder. The old leases expire on May 31, 2005. On May 10, 2005, the Company renewed the leases for another two years from June 1, 2005 to May 31, 2007 based on the current terms. As of September 30, 2005, the approximate minimum lease payments that will have to be made through the lease expiration date are as follows:

Remainder 2005	$	4,422
Year 2006		17,688
Year 2007		7,370
	$	29,480

9. GMP CERTIFICATION

The management believes that neither RBX nor Company are subject to Good Manufacturing Practices (GMP) certification, as RBX is currently considered to be a part of a treatment with medical equipment. GMP is granted by the State Drug Administration (SDA) of China (China's equivalent to the FDA in the United States of America). GMP guidelines define standards for the pharmaceutical manufacturing process to reduce the possibility of contamination errors and it conforms to the WTO's fundamental principles concerning the medicine production administration. Management believes that the requirement of the GMP certification and license for the Company and RBX will not begin in the foreseeable future.

10. EARNINGS PER SHARE

Basic EPS amounts are determined based on the weighted average number of shares of common stock outstanding. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share.

11. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

The Company prepares its statements of cash flows using the indirect method as defined under the Financial Accounting Standard No. 95.

The Company paid no interest and no income tax during the nine months periods ended September 30, 2005 and 2004.

12. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC and by the general state of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This quarterly report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the Company's future financial performance. The Company has attempted to identity forward-looking statements by terminology including "anticipates", "believes", "expects", "can", "continue", "could", estimates", "intends", "may", "plans", "potential", "predict", "should" or "will" or the negative of these terms or other comparable terminology. Although the Company believes that the expectation reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, level of activity, performance or achievements. The Company expectations are as of the date this Form 10-QSB is filed, and the Company does not intend to update any of the forward-looking statements after the date this quarterly report on Form 10-QSB is filed to confirm these statements to actual results, unless required by law.

OVERVIEW

Genex Pharmaceutical, Inc., formerly known as KS E-Media, Inc. (the "Company"), was incorporated in the State of Delaware on February 28, 2002. Prior to June 17, 2004, the Company was considered a development stage company. The Company was a start-up Internet based Fulfillment Company based in Vancouver, BC, Canada.

On June 8, 2004, the Company entered into a Share Purchase Agreement with Tianjin Zhongjin Biology Development Co., Ltd. ("TZBD"), a company formed under the laws of the People's Republic of China, and the shareholders of TZBD. Under the terms of the agreement, the Company acquired 100 percent of TZBD's shares in exchange for 3,658,375 restricted shares of the Company's common stock which were issued to the TZBD shareholders. On June 17, 2004, the stock purchase made pursuant to the Share Purchase Agreement was consummated. On June 27, 2004, the Company effectuated a three-for-one stock dividend of the Company's common stock. On June 29, 2004, the Company changed its name to the present name.

TZBD's Chairman of the Board of Directors, Mr. Fuzhi Song, has been appointed the Company's President, Chief Executive Officer and Chairman of the Board of Directors. Mr. Shuli Zhang has been appointed Chief Financial Officer and Treasurer. Ms. Sufen Ai has been appointed as the Company's Secretary. Mr. Mayur Pandya resigned as an officer and director of the Company effective June 18, 2004.

Unless otherwise specified or the context otherwise requires, in this Form 10-QSB the terms the "Company", "Genex", "we", and "our" shall mean the operations or business of Genex Pharmaceutical, Inc., a Delaware corporation.

About TZBD

TZBD is incorporated under the laws of the People's Republic of China ("PRC") and is headquartered in Tianjin, China. TZBD engages in the business of producing and distributing Reconstituted Bone Xenograft ("RBX"), which is considered to be a medical device. This bone grafting technology accelerates bone healing. Its medical devices are distributed to 400 hospitals in 22 provinces throughout PRC. TZBD markets its technology to hospitals in PRC and targets to position itself as a comprehensive medical device provider of bone grafting products and services.

RESULTS OF OPERATIONS - Three months period ended September 30, 2005

Sales

The Company generated revenues of $715,643 for the three months period ended September 30, 2005, which was a $25,710 or 3% decrease from $741,353 for the three months period ended September 30, 2004. The Company was able to maintain the business volume during the three months period ended September 30, 2005 through its marketing efforts.

Gross profit

Gross profit decreased by $15,060 or 2% from $665,260 for the three months period ended September 30, 2004 to $650,200 for the three months period ended September 30, 2005. The decrease in gross profit for the three months period ended September 30, 2005 was in line with the slight decrease in sales revenue.

Selling expenses

Selling expenses decreased by $66,140 or 36% to $119,559 for the three months period ended September 30, 2005 from $185,699 for the three months period ended September 30, 2004. This was primarily due to the decrease in telecommunication expenses of $8,508, transportation expenses of $10,342, provision for bad debt expenses of 23,031 and training and seminar expenses of $24,777.

General and administrative expenses

General and administrative expenses increased by $97,178 or 94% to $200,381 for the three months period ended September 30, 2005 from $103,203 for the three months period ended September 30, 2004. This is primarily due to the increase in consulting fees of $35,636, amortisation of intangible assets of $5,258, bad debt expenses of $17,107, entertainment expenses of $24,927 and professional fees of $10,000 for the three months period ended September 30, 2005.

Income (loss) from operations

The income from operations decreased by $46,098 or 12% from $376,358 for the three months period ended September 30, 2004 to $330,260 for the three months period ended September 30, 2005. The decrease of income from operations for the three months period ended September 30, 2005 was due to the slight decrease in gross profit of $15,060 coupled with the increase in general and administration expense of $97,178 and the decrease of selling expenses of $66,140.

Other income (expenses)

There was other income of $1 for the three months period ended September 30, 2005 as compared to other expenses of $115 for the three months period ended September 30, 2004.

Interest income for the three months period ended September 30, 2005 increased to $21,210 from $11,053 for the three months period ended September 30, 2004 due to the increase in cash advances to related parties during the three months period ended September 30, 2005 as compared to the three months period ended September 30, 2004.

Net income (loss)

The Company recorded a net income of $351,471 for the three months period ended September 30, 2005 as compared to a net income of $387,296 for the three months period ended September 30, 2004. This was primarily due to the significant increases in administrative expenses during the three months ended September 30, 2005 as compared to the corresponding period of last year.

RESULTS OF OPERATIONS - Nine months period ended September 30, 2005

Sales

The Company generated revenues of $1,664,577 for the nine months period ended September 30, 2005, which was a $65,807 or 4% increase from $1,598,770 for the nine months period ended September 30, 2004. The increase in revenues was mainly due to the business expansion through its marketing efforts.

Gross profit

Gross profit increased by $76,078 from $1,423,300 for the nine months period ended September 30, 2004 to $1,499,378 for the nine months period ended September 30, 2005. Gross profit margin increased slightly to 90% for the nine months period ended September 30, 2005, from 89% for the nine months period ended September 30, 2004.

Selling expenses

Selling expenses decreased by $111,537 or 24% to $343,748 for the nine months period ended September 30, 2005 from $455,285 for the nine months period ended September 30, 2004. This was primarily due to a decrease in communication expenses of $8,426, salary expenses of $6,042, transportation expenses of $10,682, training expenses of $52,739, advertising expenses of $7,513 and provision for bad debt expenses of $23,031, for the nine months period ended September 30, 2005.

General and administrative expenses

General and administrative expenses increased by $92,455 to $466,468 for the nine months period ended September 30, 2005 from $374,013 for the nine months period ended September 30, 2004. This is primarily due to the increases in consulting fees expenses of $35,636, amortisation of intangble assets of $5,258, bad debt expenses of $29,337, audit fee expenses of $27,970 and professional fee expenses of $30,000, offset against the decreases in depreciation expense of $38,723 for the nine months period ended September 30, 2005.

Income (loss) from operations

As gross profit increased due to the increases in sales, coupled with the decrease in selling and marketing expenses due to better cost control. The income from operations changed from $594,002 for the nine months period ended September 30, 2004 to $689,162 for the nine months period ended September 30, 2005, representing an increase of 16%.

Other income (expenses)

There was other income of $3,746 for the nine months period ended September 30, 2005 as compared to other expenses of $1,503 for the nine months period ended September 30, 2004.

Interest income for the nine months period ended September 30, 2005 increased to $50,790 from $13,392 for the nine months period ended September 30, 2004 due to the increase in cash advances to related parties during the nine months period ended September 30, 2005 as compared to the nine months period ended September 30, 2004.

Net income (loss)

The Company recorded a net income of $743,698 for the nine months period ended September 30, 2005 as compared to a net income of $605,891 for the nine months period ended September 30, 2004. This was primarily due to the significant increases in gross profit due to business expansion and increases in interest income coupled with decreases in selling expenses due to better cost control.

FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

For the nine months period ended September 30, 2005, our operations provided net cash of $835,421, an increase of $453,238 from net cash of $382,183 provided for the nine months period ended September 30, 2004. There was $86,312 used for investing activities for the nine months period ended September 30, 2005 as compared to $6,110 for investing activities for the nine months ended September 30, 2004. We used $947,952 for financing activities for the nine months period ended September 30, 2005 whereas we used $137,174 for financing activities for the corresponding period last year.

As of September 30, 2005, we had cash on hand of $189,342. We had a net decrease in cash and cash equivalent of $136,653 in the current period as compared to a net increase of $238,899 in the corresponding period last year.

We had no significant capital expenditure commitment outstanding as of September 30, 2005.

EXCHANGE RATE

Fluctuations of currency exchange rates between Renminbi and United States dollar could adversely affect our business since we conduct our business primarily in the PRC, and the sale of our products to corporations in the PRC are settled in Renminbi. The Chinese government controls its foreign reserves through restrictions on imports and conversion of Renminbi into foreign currency. Although the Renminbi to United States dollar exchange rate has been stable since January 1, 1994 and the Chinese government has stated its intention to maintain the stability of the value of Renminbi, there can be no assurance that exchange rates will remain stable. On July 22, 2005, the Chinese government revalued Renminbi and announced a change in its currency policy to allow Renminbi to float against a basket of currencies. However, it does not imply free convertibility of Renminbi to other foreign currencies. The Renminbi could appreciate against the United States dollar. Exchange rate fluctuations may adversely affect our revenue arising from the sales of products in the PRC and denominated in Renminbi and our financial performance when measured in United States dollars.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that "under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges". This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal". In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company.

On December 16, 2004, the FASB published Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS No. 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS No. 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS No. 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management does not anticipate that the implementation of this standard will have a material impact on the Company's consolidated financial statements.

On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions ("SFAS No. 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS No. 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS No. 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

In March 2005, the FASB issued Interpretation No. ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143". FIN 47 clarifies that SFAS No. 143, "Accounting for Asset Retirement Obligations," requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company does not expect the adoption of FIN 47 to have a material impact on its results of operations or financial position.

ITEM 3 - CONTROLS AND PROCEDURES

We had no significant capital expenditure commitment outstanding as of September 30, 2005.

1)

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Within the 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its principal executive and financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Company's principal executive and financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that Company files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

2)

Changes in Internal Control

There were no changes in the Company's internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company's most recent evaluation.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine months period ended September 30, 2005, we did not issue any shares of common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) *Exhibits*.

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b)

Reports on Form 8-K.

A Form 8-K was filed with the U.S. Securities and Exchange Commission on April 1, 2005, announcing our change of auditors from Weinberg & Company, P.A. to Kabani & Company, Inc. On November 16, 2005, a Form 8-K was filed to disclose the change in the Company's certifying accountant from Kabani & Company, Inc to GC Alliance Limited, Certified Public accountants.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENEX PHARMACEUTICAL, INC.

Dated: November 21, 2005	By	/s/ Fuzhi Song
	Name:	Fuzhi Song
	Title:	Chief Executive Officer
Dated: November 21, 2005	By	/s/ Shuli Zhang
	Name:	Shuli Zhang
	Title:	Chief Financial Officer