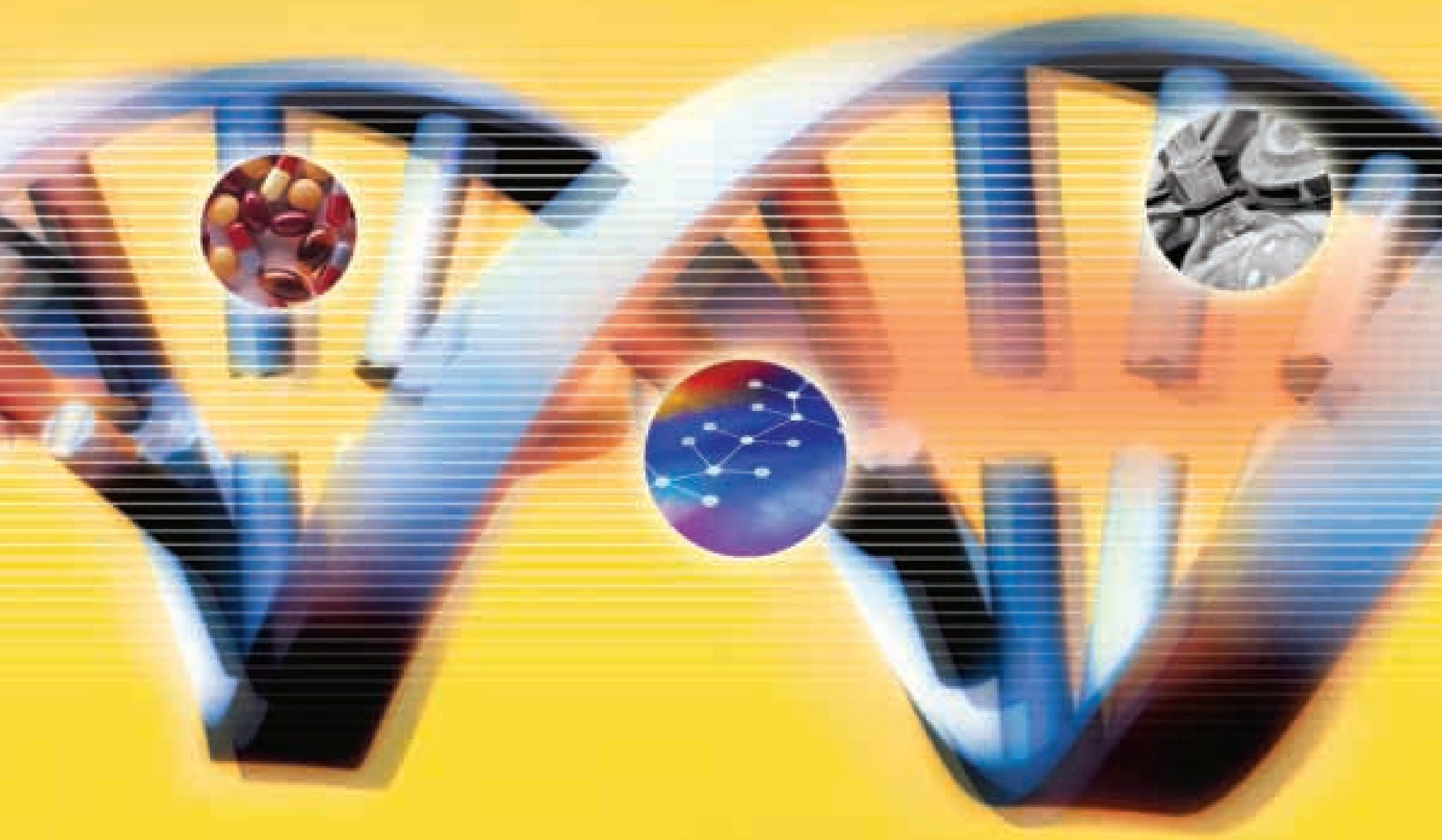
Jiwa Bio-Pharm Holdings Limited
積華生物醫藥控股有限公司*

(Incorporated in Bermuda with limited liability)

Annual Report 2005

*for identification only



Contents

Corporate Profile

Mr. Lau Yau Bor, Chairman of the Group, was presented the state-level highest honor award for foreign experts, the "Friendship Award".
Note: this award was created by the State Administration of Foreign Experts Affairs under the authorization of the State Council of the People's Republic of China in 1991 to appreciate and express gratitude to foreign experts who have made remarkable contribution to social development and economic, scientific, cultural and other construction of China. In 2004, there were approximately 250,000 foreign experts working in China, only 84 of them have received such honor.

Business

The core business of Jiwa Bio-Pharm Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") includes research and production of pharmaceutical products in China and trading and distribution of pharmaceutical products of European pharmaceutical companies. In recent years, the Group has also started to produce prescription Chinese medicines and Chinese health-care products, and planned to develop the Southeast Asian, European and US markets in steps.

At the beginning of its establishment, the Group was principally engaged in the production and trading of anti-infectious and other specialized pharmaceutical products. In recent years, the Group has made a strategic adjustment to its product mix and focus on developing drugs on five therapeutic categories in response to changing market demands and state policy changes in the PRC. In addition to the existing anti-infectious, gastro-intestinal and musculo-skeletal drugs, cerebro-cardiovascular, anti-depressant and psychiatric disorder drugs would also be developed. The Group anticipates that the proportion of the two new categories of drugs in the turnover of the Group would increase gradually in the future.

The Group will continue to import sophisticated new drugs in these five therapeutic areas under exclusive agency arrangement from European principals into China as well as production under its own brands. Besides pharmaceuticals, the Group also develops prescription Chinese medicines and Chinese health-care products. The Group would also be developing soon to manufacture pharmaceutical bulk materials to complement its current expertise in producing finished products.

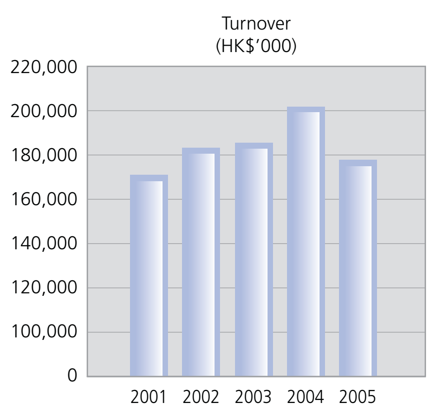
The Group dedicates itself to the overall development of its pharmaceutical business from research and development to production and distribution of its products. This is to ensure reliability of product quality, cost efficiency in production and first hand information on markets.

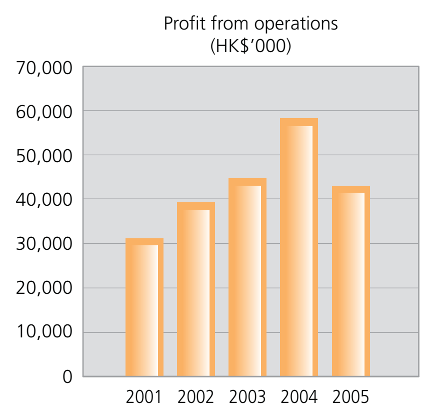
CORPORATE STRUCTURE

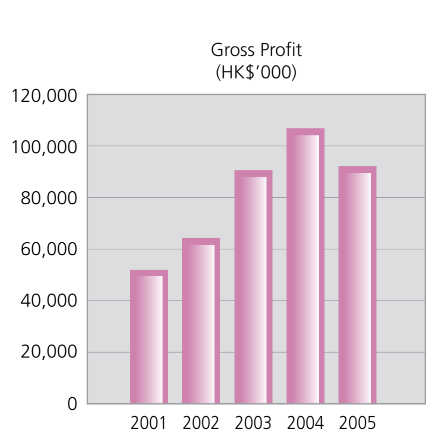
** For identification only*

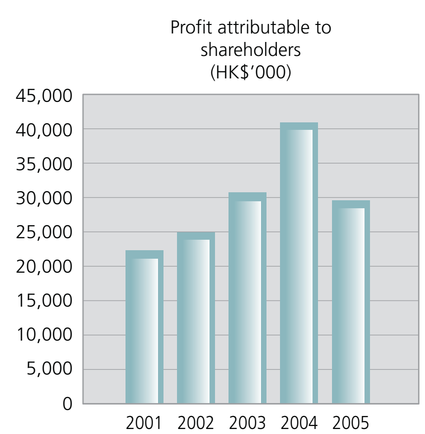
Financial Highlights

	2005 HK$'000	2004 HK$'000	% Change between 2005 and 2004
Turnover	**179,226**	202,950	(11.7%)
Gross profit	**92,935**	107,312	(13.4%)
Profit from operations	**43,475**	58,855	(26.1%)
Profit attributable to shareholders	**29,511**	41,019	(28.1%)
Total assets	**343,267**	327,434	4.8%
Total bank borrowings	**89,623**	93,966	(4.6%)
Shareholders' funds	**186,859**	164,168	13.8%
Business performance ratios:			
Return on total assets (%)	**12.7%**	18.0%	(29.4%)
Return on shareholders' funds (%)	**15.8%**	25.0%	(36.8%)
Gross profit margin (%)	**51.9%**	52.9%	(1.9%)
Net profit margin (%)	**16.5%**	20.2%	(18.3%)
Current ratio	**2.52**	3.69	(31.7%)
Quick ratio	**2.12**	3.33	(36.3%)
Gearing ratio (%)	**26.1%**	28.7%	(9.1%)









MANAGEMENT DISCUSSION & ANALYSIS

1. Amixin - New product launched in the period
2. Calco - New product launched in the period
3. Jida Xifu - Key product of anti-infectious drugs
4. Tong Xitong - Key product of musculo-skeletal drugs
5. Huo Duoshi - Key product of cerebro-cardiovascular drugs
6. Song Taisi and Gluthion - Key product of gastro-intestinal drugs
7. Royal 2000 - The premium healthcare product of the Group

Chairman's Statement

Mr. Lau Yau Bor,
(Chairman)

Dear Shareholders,

On behalf of the Group, I am pleased to present the annual results for the year ended 31 March 2005.

RESULTS SUMMARY

For the financial year ended 31 March 2005 (the "Period"), the Group's turnover decreased by 11.7% over last year to approximately HK$179.2 million. Likewise, gross profit decreased by 13.4% over last year to approximately HK$92.9 million and operating profit decreased by 26.1% over last year to approximately HK$43.5 million. Profit attributable to shareholders of the Group decreased by 28.1% over last year to HK$29.5 million and earnings per share decreased to HK$5.9 cents, down 39.8% from that of last year. This is in line with the pharmaceutical industry which saw profit declining in general this year. The Group's ability to mitigate negative impacts on profit was considered remarkable.

FINAL DIVIDEND

A final dividend of HK1.5 cents per share of the Company ("Share") is proposed to shareholders whose names appear on the register of members on 8 August 2005 (Monday). The dividend will be payable on 25 August 2005 (Thursday). The Group has adhered to its dividend payout ratio of at least 25% and the proposed dividend this year actually increased by 15.4%, comparing to last year, even though profit has decreased this year.

THE PHARMACEUTICAL MARKET AND DEVELOPMENT OF THE GROUP

Opportunities arised in the regulated pharmaceutical market

(1) The PRC pharmaceutical industry registered a growth rate of 14% against a growth rate of just over 7% recorded by the global pharmaceutical market in 2004, making it one of the fastest growing pharmaceutical markets globally. This growth is sustainable with a huge population of 1.3 billion people in the PRC coupled with an aging problem. The urbanization of the rural areas and the implementation of rural cooperative medical system in the PRC will make the rural pharmaceutical market a new area of growth for development of the domestic pharmaceutical industry. The Group has revised its strategies to capture the opportunies arised.



(2) In recent years, China has increased its regulation over the production of pharmaceutical products via continuous promulgation and improvement of pharmaceutical policies and regulations, including 1) the requirement for all pharmaceutical production enterprises to obtain Good Manufacturing Practice ("GMP") licenses from the State Food and Drug Administration of the PRC (the "SFDA"); 2) gradual implementation of the rural cooperative medical system and to gear up urbanization of medical services in rural areas; 3) relevant departments of the PRC government to continue to enforce austerity control over pharmaceuticals; and 4) deregulation of the commercial wholesale distribution of drugs. All these policies are favorable to the development of the Group. The Group had rapidly revised its strategy in response to these changes.

(3) Such increased regulation by the PRC government over the pharmaceutical industry actually provides a healthy framework within which the pharmaceutical market can develop over the longer term. The improvement in the structure of pharmaceutical manufacturing enterprises, together with the abundance of research and development talents, the availability of quality medical raw materials and favourable production conditions for drug preparation are all factors pushing the PRC pharmaceutical industry to develop in line with international practice. Development made by the Group over the past 3 years have laid a solid foundation for the Group to benefit from this policy.

(4) In addition, increased regulation by the PRC government over the pharmaceutical industry will gradually eliminate small size pharmaceutical enterprises who lack competitive edges in technology, quality and price. Meanwhile, such increased regulation also elevates the barrier of entry into the PRC pharmaceutical market. As a result, the Group would enhance its corporate strength, product quality and markets by leveraging on the economies of scale and synergy via suitable acquisition, merger and reorganization.

Chairman's Statement

(5) In the past decade, the Group has placed substantial efforts in introducing pharmaceutical products with good market potential into the PRC market. However, the importance of traditional Chinese medicines has gained increasing recognition internationally. This coupled with the continuing growth in the PRC pharmaceutical industry with population of 1.3 billion and the huge and challenging international market means that the Group is adjusting its strategy to engage in both Chinese and Western medicines. As a result of this, the Group acquired 23.81% of Yunnan Pharmaceutical Materials Limited (雲南藥材有限公司), a subsidiary of China Pharmaceutical Materials Group Company (中國藥材集團公司) to further develop its Chinese medicine business.

Short-term impact of price-cut policy

In June 2004, China State Development and Reform Commission (the "CSDRC") ordered to scale down the retail price of antibiotics with an average reduction in price of approximately 30% for 24 types of antibiotics. The Group's 13 types of products (46% of the total products) were therefore affected, and as a result, this year's turnover decreased by approximately 11.7% as compared with that of last year.

However, I believe the impact of such price-cut policy to the Group should be short lived. In fact, the Group changes the product mix swiftly, thus reducing the reliance on anti-infectious products.

Long-term strategy

Focusing on the development of five therapeutic categories of pharmaceutical products

In view of the PRC's reform of the pharmaceutical industry and the changes towards the market economy system, after conducting sufficient analysis of short-term, mid-term and long-term development of the international and the PRC pharmaceutical markets, the management of the Group has adjusted its product mix, including anti-infectious, gastro-intestinal and musculo-skeletal system, cerebro-cardiovascular, and anti-depressant and psychiatric disorder. It is expected that these categories will gradually account for a higher percentage of the Group's overall turnover in the future as we believe that these medicines are important to cure the serious disease of human.

Cerebro-cardiovascular drugs have become the most widely used drugs in the world pharmaceutical market. The aging population renders a continuous increase in people suffering from cerebro-cardiovascular problems. According to the World Health Organisation ("WHO"), osteoarthritis, cerebro-cardiovascular diseases and cancer are the three major causes of death. According to the statistics provided by Southern Economic Research Institute of the PRC, cerebro-cardiovascular drugs are the second most widely used drugs in the PRC in 2003, with approximately 14% share of the drug's market.

Statistics showed the US government had spent huge sums of money subsidizing anti-depression treatments annually. As the medical world has deeper understanding and better diagnosis of depression, anti-depressant has already become a widely used drugs globally. In the PRC, the Ministry of Health has classified depression as the focal point for the development of preventive and curative measurements in the coming years. Production of this type of drugs in the PRC is now just entering into an initial growing phase and it will harbour great potential for development.

According to relevant statistics of the world and PRC authorities, together with analysis made by the Group's R&D staff, I believe that cerebro-cardiovascular, anti-depressant and psychiatric disorder drugs have great market potential, high-technological requirements and good return. Thus, it would provide great impetus for the operation and return to the Group.

Chairman's Statement

Expanding International market

The Group pursues a prudent acquisition and merger strategy as one of the means to achieve its long term objectives.

In November 2004, the Group entered into a cooperative agreement with Rintech Inc., a US company which is engaged in R&D of pharmaceutical bulk materials, to establish Jiwa Rintech Holdings Limited ("Jiwa Rintech"). The purpose of this co-operation is to allow the Group to acquire production capability in pharmaceutical raw materials for export to Europe and the United States of America ("USA"). In May 2005, Jiwa Rintech entered into a Capital Injection Agreement in the PRC which gives the Group control over the PRC entity, now renamed as Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP"). The rationale in this acquisition is that the Group would gain control immediately of a manufacturing plant owned by JJRP. The plant can be modified quickly, so as to obtain certification issued by SFDA (PRC) and FDA (USA) to start formal production for export to the USA market. This development will also become a new area of growth for turnover and profit of the Group.

Focus on the PRC market with an eye on the global market

It is widely believed that China and India will eventually become the world's two largest production bases for pharmaceutical raw materials. This is due to their competitive edges in low operating costs, abundant supply of resources, highly skilled scientific research personnel, as well as the existence of a huge domestic market. It is thus of vital importance for the Group to develop its own manufacturing capability in pharmaceutical raw materials for both the PRC and international market.

Having a FDA (USA) approved pharmaceutical plant would enhance the Group's image in the pharmaceutical industry, while developing an export market in the USA would assist in diversifying the Group's dependence on the PRC market. Development of the US market would also serve as a platform for recruiting and attracting top professional researchers in future, providing the Group a better position to develop new products with world-wide patents.

APPRECIATION

The Group was listed on the main board of The Stock Exchange of Hong Kong Limited on 14 October 2003. The successful listing provides a new platform for the expansion and development of the Group.

To cope with the development of the Group, we are constantly on the look out for talents, people who can assist the Group in achieving its objectives. The Group believes that the pool of capable employees is not only our most important intangible assets, but also the driver to its success. I take this opportunity on behalf of the board of directors to express our gratitude to the management and staff who have worked hard to contribute to the growth of the Group. In addition, I extend my sincere appreciation to every shareholder for their continuous support to the Group. Last but not least, the Group will continue to enhance its competitiveness and endeavour to increase its shareholders' value. It is my pleasure to achieve it and I am confident of accomplishing the task.

Lau Yau Bor
Chairman

Hong Kong, 5 July 2005

CEO's Report

Mr. Lau Kin Tung
(Vice Chairman and
Chief Executive Officer)

BUSINESS REVIEW

Sales of products

During the Period under review, the Group sold approximately 28 types of pharmaceutical products, most of which were for gastro-intestinal, anti-infectious and musculo-skeletal system. These products were primarily produced by our plant in Kunming, PRC ("pharmaceutical products") while 4 types of products were distributed under exclusive agency agreement with European principals and sold in China ("trading products"). In addition, we produced approximately 11 types of Chinese healthcare products ("healthcare products"), the sales of which during the Period comprise approximately 5% of the Group's total turnover.

Pharmaceutical products

During the Period under review, turnover of pharmaceutical products was approximately HK$109.7 million, representing a decrease of approximately 25% as compared to the previous year. The decrease was primarily due to CSDRC's price-control policy on antibiotics, which affected 13 types of our products. During the period under review, the Group has taken great pain to obtain approval to price antibiotics independently. The management have also adjusted the sales mix as its long term strategy.

Trading products

The turnover of traded pharmaceutical products for the Period amounted to approximately HK$60.7 million, representing an increase of approximately 26% as compared to the previous year. The significant increase in the turnover of the trading segment was due to the fact that 1) the Group expanded its sales network in the PRC and raised the professionalism of its sales force, improving therefore the promotion of its products; 2) the traded pharmaceutical products for which we acted as agents were well known for their quality; 3) the Group was approved by the CSDRC to increase the retail price of Reduced Glutathione Sodium for Injection nation wide; 4) in June 2004, the Group also launched Salmon Calcitonin for osteoporosis, which were well received by the market.

Health care products

The turnover of Chinese healthcare products amounted to approximately HK$8.9 million, representing an increase of approximately 3.9% as compared to the previous year. The improvement in turnover for the Period under review was due to the Group's revised strategy and increased efforts in the development of direct sales business ("direct sales"). The Group will continue to focus on the development of direct

sales and shall therefore incur less advertising expenses. It is believed that the profit from this part will increase accordingly.

Gross profit

The Group recorded a gross profit of approximately HK$92.9 million for the Period under review, representing a decrease of approximately 13.4% as compared to that of last year. Gross profit margin of the Group recorded a slight decrease of 1.9% to approximately 51.9% in the Period under review. With the Group's adjustment on the sales mix of existing products and the introduction of new products, the management believes that the effect of the CSDRC's price-control policy on the Group would only be temporary.

Operating profit

Operating profit of the Group for the Period amounted to approximately HK$43.5 million, representing a decrease of approximately 26.1% as compared to the corresponding period in the previous year. The decrease in operating profit is higher than that in turnover and gross profit, mainly because the Group's new plant in the High-Technology Industrial Development Zone in Kunming has started its operation, but not yet in full utilization during the period. The management believes as the new plant become in full utilization, our results will improve significantly.

Profits attributable to shareholders

During the Period, Profits attributable to shareholders of the Group was approximately HK$29.5 million, representing a decrease of approximately 28.1% as compared to the corresponding period in the previous year. Finance costs amounted to approximately HK$3.7 million, a significant increase of 186.9% over that of the previous year. The significant increase was due to the fact that the Group had enjoyed a one-time government interest subsidy of RMB1.7 million in the previous year, which was granted by the PRC government to encourage fixed asset investments by enterprises in the PRC, for which the Group was qualified via its construction of a new plant in the previous year.

To summarise, the operating results of the Group this year was affected partly by the delayed launch of some new products of the Group; the CSDRC's price restriction policy has also taken its toll; and increasing operating expenses from the commencement of operation of the new plant all contributed to the decrease in the Group's profit.

CEO's Report

OPERATION REVIEW

Adjust product sales mix and introduce products with high technological requirements in production

Other than making pharmaceutical products for anti-infectious, gastro-intestinal, and musculo-skeletal system, the Group also invest in the research of cerebro-cardiovascular drugs, anti-depressants and psychiatric disorders drugs so as to mitigate risks resulting from the CSDRC policy change and to improve the overall profit margin of the products. The product development team of the Group has been actively engaged in the research and development of new products with high-technological requirements in production. Although some of the new products had postponed the launching, the management is confident that they will be put on the market sometime from 2005 to 2007, and new products would become the main driver of the Group's profits in the near future. The Group would focus on producing drugs in the five therapeutic categories and increase its efforts on the research and development of new medicines with the objective of owning new and self-owned patented pharmaceutical products in the future.

Launch new medicines and review the development of new products

The Group launched 3 new medicines during the Period in the PRC, including Yankening Pian, a kind of traditional Chinese medicine for inflammation, Loratadine for relieving symptoms of allergic rhinitis and Salmon Calcitonin Injection for osteoporosis. The last one being distributed as exclusive PRC agency for Lisapharma SpA, a renowned Italian pharmaceutical firm.

During the Period, the Group received from SFDA 7 Production Permits and 2 Registration Certificates for Imported Medicines (including 2 kinds of raw materials and 5 kinds of medicines). During the Period, the Group's on-going research and development of 10 new medicines went smoothly. Two types are in the process of pre-clinical research, one has gone through pre-clinical research, four are in the process of clinical research and the remaining three have gone through clinical research. These new products would contribute to the Group's sales significantly in the near future.

Improve brand value

During the Period under review, the Group established a product management department comprised of professional medicine and marketing staff. They are responsible for brand promotion and the overall marketing and sales strategy of key products, including 1) anti-infectious medicine Cefixime Capsules (product name: Jida Xifu), a third generation oral cephalosporin; 2) gastro-intestinal medicine Reduced Glutathione Sodium for Injection (product name: Song Taisi), which is broadly used in clinical treatment of liver impairment caused by various reasons, auxiliary cure of chemotherapy and radiotherapy and hypoxemia; 3) musculo-skeletal medicine Triamcinolone Acetonide Injection (product name: Tong Xitong), which has long standing anti-inflammation and anti-allergy effect, particularly effective for cure of osteoarthritis and rheumatoid arthritis; 4) cerebro-cardiovascular medicine Low Molecular Weight Heparin Sodium Injection (product name: Huo Duoshi), being the first prefilled syringe low molecular heparin produced in China which has been widely applied in the clinical anti-coagulation of blood dialysis, blood vessel surgery, emergency and orthopaedics, among others.

Extend sales network and enhance sales teams

In line with the Group's development and introduction of new products, the Group continued to expand its sales network, increase the number of distributors and continue to raise the professional standard of its sales staff. The Group recruited medical professionals with an international outlook and knowledge of PRC dynamics as elite cadres of the Group's marketing department, as their expertise and relationship network would contribute immensely to the promotion of its products. Apart from the PRC market, the Group also actively seek to expand its market to South East Asia. In December 2004, the Group successfully registered under approval of the Ministry of Hygiene of Myanmar (Burma) 6 of the Group's products and started exportation to South East Asia market.

Increase efficiency and cut cost

With the Group's commencement of operations of its new plant, an internal campaign of "increasing efficiency and cutting cost" was introduced in June 2004. All staff were encouraged to submit plans aimed at raising efficiency and/or costs saving and were rewarded when their plans are vetted as plausible and results after implementation are positive. The Group would continue to reinforce this work goal, making it part of the corporate culture, which would serve ultimately to improve the Group's earnings.

Enhance production capacity and quality of production facility

Official operation of the new plant

In May 2004, the Group's new plant located at the High-Tech Industrial Development Zone of Kunming City was officially handed over by the project manager upon completion of construction. The new plant, with a gross floor area of approximately 38,000 square meters, would be well equipped to support the Group's R&D and production needs both currently and in the future.

Import advanced equipment

To improve the quality of products and introduce advanced dosage forms, the Group has imported advanced equipment for the new plant, including, among others, automatic amino acid synthesizer from the U.S., and a complete line from Germany for production of prefilled syringes. All packing material for this prefilled syringe line will be imported from the U.S. in sterile condition, ensuring a top of its class quality.

More GMP certification

During the Period, the Group successfully obtained GMP certification for 4 production lines of different dosage forms, increasing the number of the Group's existing GMP production lines to 9. It is expected that by the end of 2006, the Group can obtain GMP certification for 8 more production lines, thus increasing the number of certified production lines to 17.

With all these GMP facilities for different dosage forms, the Group greatly increases its production flexibility, and ensures that once approval for any new product is obtained, the Group can immediately launch production and market the new drug ahead of others.

PROSPECT NEXT YEAR

With the introduction of new products and optimization of product sales mix, the Board is confident that the results would improve significantly next year.

The objectives set by the Group for the coming year would include the following:

– Focusing in research and development of the five therapeutic categories and to file the first patent application in China.

– To continue the expansion of sales network covering China and market share of key products.

– Increase effort in brand promotion to improve product value and margin.

– Bulk material plant to embark upon production and the filing of DMF to the FDA (U.S.).

– To implement a new round of internal campaign in increasing efficiency and cutting cost.

– To actively expand regional business, and to develop the South East Asian market.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, cash and cash equivalents of the Group totalled approximately HK$56.7 million (2004: approximately HK$87.3 million), of which approximately 47% are in Hong Kong dollars, 27% in RMB and 26% in US dollars. The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 31 March 2005 and actively monitors its net foreign currency exposures. As the bulk of the Group's transactions and assets are denominated in HK dollars, US dollars and RMB, the impact of foreign currency fluctuations is minimal and the current hedging facilities are considered sufficient for the near future.

Although the Group has consistently been in a liquid position, banking facilities have nevertheless been utilized partly to enjoy the interest grant concession offered by the PRC authorities (on long term bank loans to encourage fixed assets investment in 2003) and partly to reserve funds for possible acquisition opportunities that may arise.

As at 31 March 2005, the Group had aggregate banking facilities of approximately HK$173.2 million (2004: approximately HK$110.6 million) of which approximately HK$96.3 million was utilized (as to approximately HK$47.2 million in long term bank loans, as to approximately HK$42.5 million in short term bank loans, as to approximately HK$4.9 million in letters of guarantee and as to the balance of approximately HK$1.7 million in Letter of credit issued by the relevant banks to independent third parties). The Group's aggregate banking facilities of approximately HK$173.2 million include approximately HK$147.2 million equivalent in RMB denominated banking facilities. The utilized banking facilities of approximately HK$96.3 million includes approximately HK$89.7 million equivalent in RMB denominated bank borrowings.

Interest rates applicable to the RMB denominated bank borrowings are renewable annually and are fixed at 4.941% per annum for RMB50 million in long term bank loans; 4.743% per annum (weighted average) for RMB45 million in short term bank loans as at the end of the Period.

As at 31 March 2005, the gearing ratio was approximately 26.1% (2004: approximately 28.7%), calculated based on the Group's total bank borrowings of approximately HK$89.6 million (2004: approximately HK$93.9 million) over the Group's total assets of approximately HK$343.3 million (2004: approximately HK$327.4 million).

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Contracted for		
– acquisition of property, plant and equipment	**–**	16,791
– acquisition of technical know-how	**1,226**	1,402
	1,226	18,193
Authorised but not contracted for		
– acquisition of property, plant and equipment	**5,817**	–
	7,043	18,193

Funding for capital commitments is expected to come from the Group's internal resources.

CONTINGENT LIABILITIES

As at 31 March 2005, the Group has not provided any form of guarantees for any company outside the Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

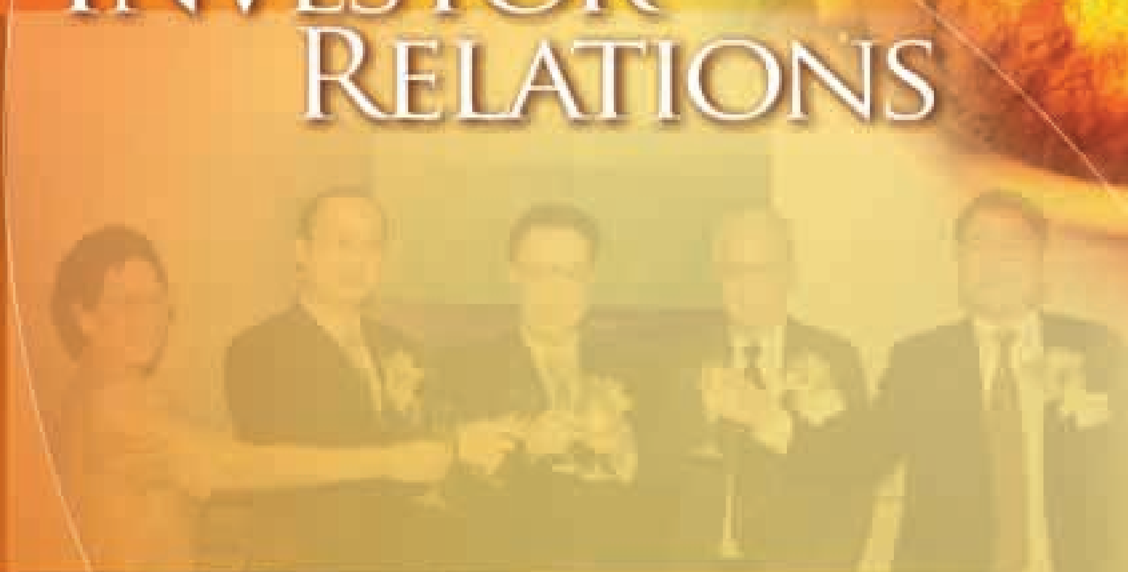
EMPLOYMENT REMUNERATION POLICY

As at 31 March 2005, the Group had approximately 391 employees. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant options to eligible employees under its share option scheme.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors in accordance to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

INVESTOR RELATIONS



Frequently Asked Questions

1. Did the Group make any substantial change to its market positioning and development strategy?

Since its establishment in 1987, the Group is dedicated to introducing well-known pharmaceuticals into the PRC, being distributor of European drugs in the PRC and being producer of generic drugs imitated those of western countries in the PRC in 1993. Since then, the Group has continually upgraded its production facilities, extended its sales network and boosted its scientific research capability. Currently, the Group is ready to transit from a producer of generic drugs to a pharmaceutical company with a strong focus on scientific research to develop its own new pharmaceutical products and enhance production technologies. There would be a gradual move away from the competitive generics market towards specialised drug market emphasizing on the development, production and sale of the five therapeutic categories of drugs identified by the Group.

2. This year's earnings decreased due to the PRC government policy of reducing the price of antibiotics. How long will the impact last?

Although the price-cut policy of antibiotics instructed by CSDRC of PRC has caused a larger than expected negative impact on the results of this year, the Group believes that it is just a transition. The Group is moving towards a more specialised drug market which is less prone to market competition and State intervention on prices. It is expected that operating results would improve with the continual launch of new products.

3. What are the drivers of future earnings' growth?

1) Expanded sales network would enhance growth in product sales;

2) Boosting the launch of new products would provide impetus for growth in margins;

3) Broadening the sales channel of prescription drugs and over-the-counter drugs respectively would increase the sale;

4) Explore new self-produced pharmaceutical raw materials and export to U.S. market;

5) Full utilization of new plant would reduce the operating cost effectively.

4. What is the expected timing of export of pharmaceutical raw materials produced by the Group?

The raw material manufacturing plant which the Group has injected resources is under remodifying so as to obtain certification from SFDA (PRC) and FDA (USA). The Group expects that export of pharmaceutical raw materials would commence by the end of 2006.

5. The Group's administrative expenses during the period increased by approximately 40% compared with that of last year, what are the main reasons? What strategies does the management take to control cost?

The increase in administrative expenses is due to increased expenses attributed to the commencement of operations of the new

Frequently Asked Questions

plant in Kunming, PRC. The Group decided to relocate all production lines in the old plant to the new plant in 2005. It is expected that operating costs would be reduced substantially when economies of scale can be achieved. The assets of the old plant would be capitalised next year.

The Group has also introduced the internal work goal "Increase Efficiency and Control Cost" in June 2004 to encourage the staff to achieve productivity, enhancing resources saving and cost saving.

6. Will the Group increase substantial R&D cost in the near future?

The Group adopts a prudent expansion strategy. Currently, the focus is to seek out cooperation with reputable domestic and international research institutes of new products, new technology and new technique. For instance, the cooperation with Rintech Inc. of U.S.A would assist the Group in the development of new international pharmaceutical products.

7. What are the effects of the regulated PRC pharmaceutical industry on the Group?

Increased regulation by the PRC over pharmaceutical industry will eliminate small to medium pharmaceutical enterprises which lack a competitive edge in terms of technology, quality and price. Meanwhile, such increased regulation also elevates the barrier to entry into the PRC pharmaceutical market. Therefore, the regulation over the PRC pharmaceutical industry will be beneficial to the development of the Group.

8. What are the strength and prospects of the Group in the PRC pharmaceutical market?

The Group expects to have a total of 17 GMP certified production lines by the end of 2006, which differentiates it from most manufacturers in the PRC pharmaceutical industry. This provides maximum flexibility for the Group's production and operation to bring in new products quickly, adapting the huge demand market and to enhance its own competitiveness.

The Group's decision-making team and management are based in Hong Kong, with many years of experience in the PRC pharmaceutical industry and global pharmaceutical market. Its heads of the technology department, marketing department and product development department, have all good understanding of the PRC market as well as an international outlook. The Group actively recruits specialists with professional qualification in pharmacy to lead sales teams, so as to raise the professional standard of its sales force and to establish its brand name.

With the competitive strengths in product, development, marketing, human capital and management, the Group is optimistic about the prospect.

9. What is the Group's dividend policy in future?

The Board has decided on a policy of dividend payout ratio of not less than 25% with effect from 2005. The Group will continue to improve its competitiveness and endeavour to increase value for its shareholders.

Financial Calendar and Corporate Information

FINANCIAL CALENDAR

Announcement of final results	5 July 2005
Closure of register of members	2 August 2005 to 8 August 2005 (both days inclusive)
2005 Annual General Meeting	8 August 2005
Dividend payable	25 August 2005

BOARD OF DIRECTORS

Executive Directors

Mr. Lau Yau Bor *(Chairman)*
Mr. Lau Kin Tung *(Vice Chairman and Chief Executive Officer)*
Madam Chan Hing Ming

Independent Non-executive Directors

Mr. Fung Tze Wa
Mr. Choy Ping Sheung
Mr. Soo Ping Shu, Samuel

COMPANY SECRETARY

Mr. Hoe York Joo (CPA, ACA, ACCA)

AUTHORISED REPRESENTATIVE (FOR THE PURPOSE OF THE LISTING RULES) AND PROCESS AGENTS (UNDER PART XI OF THE COMPANIES ORDINANCE)

Mr. Lau Yau Bor
Mr. Lau Kin Tung

AUDIT COMMITTEE

Mr. Fung Tze Wa *(Chairman)*
Mr. Choy Ping Sheung
Mr. Soo Ping Shu, Samuel

INVESTOR RELATIONS

Mr. Hoe York Joo (CPA, ACA, ACCA)
Telephone: +852 2810 8991
Fax: +852 2115 9832
Email: vincenth-finc-hk@jiwa.com.hk

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANY ORDINANCE

2904 & 2906, Tower One
Lippo Centre
89 Queensway, Central
Hong Kong

AUDITORS

Grant Thornton
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law:
Sidley Austin Brown & Wood

As to Bermuda law:
Conyers Dill & Pearman

PRINCIPAL BANKERS

In Hong Kong:
Nanyang Commercial Bank Ltd.
151 Des Voeux Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Ltd.
4-4A Des Voeux Road Central
Hong Kong

In the PRC:
Bank of China
515 Beijing Road
Kunming City, Yunnan Province
The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

COMPANY WEBSITE

www.jiwa.com.hk

STOCK CODE

2327

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Lau Yau Bor, aged 67, is the Chairman, Executive Director and one of the founders of the Group. Mr. Lau is responsible for the overall strategic development and direction of the Group. Mr. Lau has over 23 years of experience in corporate management.

He is a specially appointed council member of Overseas Chinese in Hong Kong, Macau and Taiwan and Foreign Affairs Committee of the Chinese People's Political Consultative Conference of Yunnan Province (雲南省政協港澳台僑和外事委員會); a vice chairman of Yunnan Province Association of Promotion of Foreign Economic Corporation* (雲南海外經濟合作促進會); a vice chairman of Yunnan Province Foreign Investment Enterprises Association (雲南省外商投資企業協會); a council member of Fraternity of Returned Overseas Chinese Businesses of the All-China Federation of Returned Overseas Chinese (中國僑聯華商聯誼會); a consultant to Overseas Chinese Union of Yunnan Province (雲南省華僑聯合會) and a council member of China Enterprise Directors Association (中國企業家協會).

Mr. Lau graduated from the University of Hong Kong with a Master of Philosophy Degree in Engineering (1981). He is an honourable professor of the Kunming Medical University (昆明醫學院) and a senior member of the American Institute of Industrial Engineering.

Other than holding the directorship in the Company, Mr. Lau is also the director and shareholder of LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, which holds as to 56% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Jiwa International Limited, Kunming Jida Pharmaceutical Co., Ltd ("Kunming Jida"), Yunnan Jiwa Pharm-Tech Co. Ltd. ("YJPT") and Jiwa Rintech, subsidiaries of the Company.

Mr. Lau has entered into a service contract for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Details of Mr. Lau's interests in shares and underlying shares of the Company discloseable under the Securities and Futures Ordinance (the "SFO") are set out in the sub-section headed "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" in the Directors' Report.

Mr. Lau Kin Tung, aged 35, is the Vice-Chairman, Chief Executive Officer and Executive Director of the Group. Mr. Lau joined the Group in June 1992. In 1993, Mr. Lau assisted in setting up Kunming Jida. Since then, Mr. Lau has been responsible for the international trading, research and development, marketing and distribution network aspects of the Group. Mr. Lau holds a Bachelor of Business Administration Degree from the University of Hong Kong (1992), a Master of Business Administration Degree from the University of Manchester (2002), and a Bachelor of Science Degree in Pharmaceutical Studies from the University of Sunderland (2003). Mr. Lau is the son of Mr. Lau Yau Bor, the Chairman of the Group, and Madam Chan Hing Ming, an executive Director.

Other than holding the directorship in the Company, Mr. Lau is also the director and shareholder of WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, which holds as to 7% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Tech-Medi Development Limited, Jiwa Development Company Limited, Kunming Jida, YJPT and Jiwa Rintech, subsidiaries of the Group.

Mr. Lau has entered into a service contract for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Directors and Senior Management Profile

Details of Mr. Lau's interests in shares and underlying shares of the Company discloseable under the SFO are set out in the sub-section headed "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" in the Directors' Report.

Madam Chan Hing Ming, aged 64, is one of the founders and an Executive Director of the Group. Madam Chan assisted in founding the Group and has been responsible for the international trading, marketing and financial aspects of the Group. Madam Chan also has over 23 years of experience in corporate management. Madam Chan is the spouse of Mr. Lau Yau Bor, the Chairman of the Group.

Other than holding the directorship in the Company, Madam Chan is also the director and shareholder of MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, which holds as to 7% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Tech-Medi Development Limited, Jiwa International Limited, Kunming Jida, YJPT and Jiwa Rintech, subsidiaries of the Company.

Madam Chan has entered into a service contract for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Details of Madam Chan's interests in shares and underlying shares of the Company discloseable under the SFO are set out in the sub-section headed "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" in the Directors' Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Tze Wa, aged 48, is an Independent Non-executive Director of the Group. Mr. Fung is a certified public accountant and a director of an accounting firm in Hong Kong. Mr. Fung has more than 20 years experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. Since April 2004, he has also been appointed the independent non-executive director of China Haidan Holdings Limited (formerly China Everbright Technology Limited) and New Capital International Investment Limited (formerly ING Beijing Investment Company Limited) whose shares are listed on the Stock Exchange. Mr. Fung was appointed as an Independent Non-executive Director of the Group in September 2004.

Mr. Fung has entered into a service contract with the Company for a period of one year commencing from 1 September 2004.

Mr. Fung is not related to any other directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Fung did not have any interests in the Shares within the meaning of Part XV of the SFO.

Mr. Choy Ping Sheung, aged 57, is an Independent Non-executive Director of the Group. Mr. Choy had held senior management positions in Nanyang Commercial Bank and the China and South Sea Bank (Hong Kong Branch). Mr. Choy obtained a Higher Certificate in Business Studies (Banking) from the Hong Kong Polytechnic in 1986. Mr. Choy was appointed as an Independent Non-executive Director in September 2003.

Mr. Choy has entered into a service contract with the Company for a term of one year commencing from 1 September 2004.

Mr. Choy is not related to any other directors, senior management or substantial or controlling shareholders of the Company. As at the Latest

Directors and Senior Management Profile

Practicable Date, Mr. Choy did not have any interests in the Shares within the meaning of Part XV of the SFO.

Mr. Soo Ping Shu, Samuel, aged 73, is an Independent Non-executive Director of the Group. Mr. Soo has been admitted as a Solicitor in Hong Kong since 1963. Mr. Soo is the founder and sole proprietor of Samuel Soo & Company, Solicitors. From 1980 till now, Mr. Soo is a Notary Public accredited by the International Notary Association of Hong Kong. Mr. Soo graduated from the University of Hong Kong with a Bachelor of Arts Degree (1959) and passed the Part II of the Qualifying Examination of the Law Society of England & Wales in London in 1963. Mr. Soo was appointed as an Independent Non-executive Director in September 2003.

Mr. Soo has entered into a service contract with the Company for a term of one year commencing from 1 September 2004.

Mr. Soo is not related to any other directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Soo did not have any interests in the Shares within the meaning of Part XV of the SFO.

CONSULTANT

Mr. Chen Bang Hua, aged 50, is an Executive Director of Jiwa Rintech, and the president of Rintech Inc. Mr. Chen has over 20 years' experience in new medicine R&D, pharmaceutical chemistry, synthetic organic chemistry and pharmaceutical industry. As regards management and business expansion, Mr. Chen also has extensive experiences in operation and management of American medicine R&D companies, business cooperation with various large-scale medicine companies in Europe and the USA, and establishment and continuation of business customer relationship. Mr. Chen holds a Doctoral of Philosophy Degree in Medicine.

Currently, Mr. Chen holds various positions, namely, the chief of Association of American Chinese Scientists of Medicines (美國華人醫藥科學家協會), standing member of Association of American Chinese Scientists of Medicines (美國華裔醫藥科學家協會), a vice director of International Exchange Center of the North America Chinese Scholars (北美洲中國學人國際交流中心) and the governmental Consultant for various Chinese cities. Mr. Chen is also an experienced member of American Chemistry Society.

SENIOR MANAGEMENT

Mr. Hoe York Joo, aged 43, is the Company Secretary and Chief Financial Officer of the Group. Mr. Hoe joined the Group in November 2001 and is currently responsible for the financial and accounting functions of the Group. He is also the director of YJPT, and Jiwa Rintech, both subsidiaries of the Group. Mr. Hoe has over 12 years of experience in auditing, treasury, financial accounting and credit risk management. Mr. Hoe is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants (CPA), a member of the Institute of Chartered Accountants in England and Wales (ACA), and a member of the Association of Chartered Certified Accountants (ACCA). Mr. Hoe holds a Bachelor of Accountancy Degree from the National University of Singapore in 1986 and a Master of Business Administration Degree from the University of Hong Kong in 1995.

Mr. Li Hong Xiang, aged 51, is the Deputy General Manager of Kunming Jida. Mr. Li joined the Group in January 1994 and is currently in charge of the production and GMP management functions of the Group. Mr. Li has over 21 years of experience in the pharmaceutical industry. Mr. Li completed professional studies in electrical engineering at Yunnan Broadcasting Television University (雲南廣視電視大學) in 1983 and advanced studies in business administration at Business Administration Studies Centre of the University of the People's Republic of China (中國人民大學工商管理研修中心) in 2001.

Directors and Senior Management Profile

Ms. Liu Chun Xia, aged 42, is the Quality & Technical Director of the Group. Ms. Liu joined the Group in March 1997 and is currently in charge of the quality assurance department of the Group. She is also the director of YJPT, subsidiary of the Group. During 1983 to 1995, Ms. Liu held a position in the People's Republic of China ("PRC") Pharmaceutical Production Review Bureau* (中國藥品生物制品檢定所). Ms. Liu is a chief pharmacist and has received several awards from governmental authorities in the PRC, including the State Technological Advancement Award Grade II (中國國家科學技術進步二等獎) and the Second Prize in Technological Advancement in Public Health and Pharmaceutical by the Public Health Ministry of the PRC (中國衛生部醫藥衛生科學技術進步二等獎). Ms. Liu obtained a Bachelor of Science Degree from Yunnan University (雲南大學) in 1983.

Ms. Luo Dong Mei, aged 36, is the Executive Assistant to Chairman of Kunming Jida. Ms. Luo joined Kunming Jida in 1994, she is in charge of systematic management of the purchase department, administration department and assets department. Ms. Luo holds a Bachelor of Science Degree in Engineering, and has 13 years' experience in production, quality control, sales, purchase and administration of pharmaceutical enterprises.

Ms. Feng Pu Chun, aged 33, is the Chief of the R&D department of Kunming Jida, she is in charge of new products R&D and governmental issues of the Group and its subsidiaries. Ms. Feng holds a Master of Business Administration Degree and a Bachelor of Medicine Degree. She has nearly 10 years' experience in new medicines R&D and has engaged in management for nearly 7 years. Ms. Feng also acts as member of Chinese Prices Society (中國價格協會).

Mr. Wang Chang Wen, aged 37, is the Senior Manager of Engineering Department of Kunming Jida. He is in charge of overall management of the engineering department. He graduated from East China Institute of Chemical Technology in 1989, with a Bachelor's Degree in Engineer and the title of medical engineer. Mr. Wang has over 15 years' experience in the instrument and engineering management of pharmaceutical enterprises.

Mr. Kan Shi Xue, aged 39, is the Manager of Products Department of Kunming Jida. Mr. Kan joined the Group in September 2004, in charge of setting new products' sales goal, strategic planning, market policies and marketing, as well as the daily work of the products department. Mr. Kan has 10 years' experience of medicine sales and management in medical industry. Mr. Kan holds a Bachelor of Clinical Medicine Degree from Nanjing Medical College (南京醫學院), and a Master of Clinical Pharmacodynamics Degree from Shanghai Medical University (上海醫科大學).

Mr. Zhu Yun Sheng, aged 54, is the Sales and Marketing Manager of Kunming Jida. Mr. Zhu joined the Group in September 2001 and is responsible for the sales and market development of the Group's products in the PRC. Mr. Zhu has over 19 years of experience in the sales and marketing of pharmaceutical products. Prior to joining the Group, Mr. Zhu had been the head of sales department of Kunming Pharmaceutical Limited* (昆明制藥股份有限公司), and General Manager of Kunming Complector Pharmaceutical Co. Ltd. (昆明康普萊特制藥有限公司). Mr. Zhu graduated from Chinese Communist Central Distance Learning Institute (中共中央黨校函授學院) with completion of professional economics study in 1994.

** For identification only*

Directors' Report

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, manufacturing and sales of pharmaceutical products and health care products. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

The analysis of the principal activities of the Group during the financial year are set out in note 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	61.7%	
Five largest customers in aggregate	77.3%	
The largest supplier		15.9%
Five largest suppliers in aggregate		41.6%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2005 and the state of the Group's affairs as at that date are set out in the financial statements on pages 33 to 70.

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TRANSFER TO RESERVES

Profits attributable to shareholders of the Company, before dividends, of approximately HK$29.5 million (2004: approximately HK$41.0 million) have been transferred to reserves. Details of the movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statement.

DIVIDENDS

No interim dividend was declared by the Company during the year ended 31 March 2005. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 8 August 2005, the payment of a final dividend for the year ended 31 March 2005 of HK1.5 cents per share in cash to be paid on or about 25 August 2005 to the shareholders of the Company whose names appear on the register of members of the Company on 8 August 2005.

The Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ended 2005.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from 2 August 2005 to 8 August 2005, both days inclusive, during which period no share transfers will be effected. In order to qualify for the proposed final dividend and for attending the annual general meeting of the Company to be held on 8 August 2005, all share transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4 p.m. on 1 August 2005.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired land and buildings for approximately HK$10.8 million and furniture, fixtures and equipment for approximately HK$2.5 million. Details of these acquisitions and other movements in property, plant and equipment are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

DIRECTORS

The directors of the Company during the financial year were as follows:

Executive Directors

Mr. Lau Yau Bor, Chairman
Mr. Lau Kin Tung, Vice Chairman and Chief Executive Officer
Madam. Chan Hing Ming

Independent Non-executive Directors

Mr. Fung Tze Wa
Mr. Choy Ping Sheung
Mr. Soo Ping Shu, Samuel

The Company received confirmation of independence in respect of the year ended 31 March 2005 from each of the independent non-executive directors of the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Up to and as at the date of this report, the Company still considers the Independent Non-executive Directors of the Company to be independent.

DIRECTOR'S SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors and chief executive of the Company who held office as at 31 March 2005 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the SFO) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

Interests in issued Shares

Name of Director	Personal interests (Note 1)	Family interests	Share corporate interests	Total number of Shares held	% of total issued Shares
Lau Yau Bor	22,626,000	35,000,000 (Note 2)	280,000,000 (Note 4)	337,626,000	67.53%
Lau Kin Tung	2,266,000	–	35,000,000 (Note 5)	37,266,000	7.45%
Chan Hing Ming	–	280,000,000 (Note 3)	35,000,000 (Note 6)	315,000,000	63.00%

Notes:

1. The Shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.

2. These Shares are held by MINGS Development Holdings Limited which is wholly and beneficially owned by Chan Hing Ming, the spouse of Lau Yau Bor.

3. These Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming.

4. These Shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.

5. These Shares are held by WHYS Holding Co. Ltd, the entire issued share capital of which is held by Lau Kin Tung.

6. These Shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

Interests in underlying Shares

The directors and chief executive of the Company have been granted options under the Company's share option scheme (the "Share Option Scheme"), details of which are set out in the section "Share Option Scheme" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEME

The Share Option Scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any suppliers, consultants or advisers who have provided services to any company in the Group to take up options to subscribe for Shares. The Share Option Scheme shall be valid and effective for a period of ten years ending on 24 September 2013, after which no further options will be granted. The exercise price of options is the highest of the nominal value of the Shares, the closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant.

The total number of securities available for issue under the Share Option Scheme as at 31 March 2005 was 50,000,000 Shares (including options for 17,000,000 Shares that have been granted but not yet lapsed or exercised) which represented 10% of the issued share capital of the Company at 31 March 2005.

Directors' Report

At 31 March 2005, three directors and employees of the Company had the following interests in options to subscribe for Shares granted for a consideration of HK$1 under the Share Option Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one Share.

	As at 1 April 2004	Granted during the Period	Exercised during the Period	Cancelled during the Period	As at 31 March 2005	Date of grant	Exercise period	Exercise price per Share
Directors								
Lau Yau Bor	–	5,000,000	–	–	5,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK$0.336
Lau Kin Tung	7,266,000	–	–	(7,266,000)	–	31 March 2004	31 March 2004 to 30 March 2009	HK$0.377
	–	4,000,000	–	–	4,000,000	4 May 2004	4 May 2004 to 3 May 2009	HK$0.31
	–	1,000,000	–	–	1,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK$0.336
Chan Hing Ming	–	5,000,000	–	–	5,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK$0.336
Employees								
In aggregate	2,000,000	–	–	–	2,000,000	31 March 2004	31 March 2004 to 30 March 2009	HK$0.377
Consultants								
In aggregate	5,000,000	–	–	(5,000,000)	–	1 April 2004	1 April 2004 to 31 March 2009	HK$0.40
Total	14,266,000	15,000,000	–	(12,266,000)	17,000,000			

The options granted to the director are registered under the name of the director of the Company.

The share options granted are not recognized in the financial statements until they are exercised. The directors of the Company consider it is not appropriate to disclose the value of the share options granted during the period under the Share Option Scheme since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The directors of the Company believe that the evaluation of share options based upon speculative assumptions would not be meaningful and would be misleading.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2005, the following persons (other than the directors or the chief executives of the Company), had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company were as follows:

Name	Number of Shares held	% of the issued share capital
LAUs Holding Co Ltd (Note 1)	280,000,000	56%
MINGS Development Holdings Limited (Note 2)	35,000,000	7%
WHYS Holding Co Ltd (Note 3)	35,000,000	7%

Notes:

1. LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, is wholly owned by Lau Yau Bor. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in shares, underlying shares and debentures" above.

2. MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, is wholly owned by Chan Hing Ming. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" above.

3. WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, is wholly owned by Lau Kin Tung. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" above

Save as disclosed above, the Company had not been notified by any person (other than the directors or chief executives of the Company) who had interests or short positions in the Shares and underlying Share as at 31 March 2005 which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of connected transactions entered into by members of the Group during the year were disclosed as set out in note 31 to the financial statements and the announcements of the Company dated 1 September 2004 and 28 September 2004. Further details on conditions of waivers in respect of the continuing connected transactions were disclosed under "Connected transactions" section to the Prospectus of the Company dated 30 September 2003 (the "Prospectus").

The auditors of the Company have provided to the directors (including the independent non-executive directors) of the Company their letters stating that the Transactions (as defined under the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus) have received the approval of the Board of Directors of the Company, the Transactions were conducted in accordance with the terms of the relevant agreements governing the Transactions or, if there were no such agreements, on terms no less favourable than those available to or from independent third parties, and total considerations of the Transactions for the year ended 31 March 2005 had not exceeded the respective limits as stated under the sub-section headed 'Connected transactions' in the section headed "Business" in the Prospectus.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or anytime during the year save and except for the agreements as stated in the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus and in the announcements of the Company dated 1 September 2004 and 28 September 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 March 2005, the Company had connected transactions with Yunnan Jiwa Pharm Logistics Co. Ltd. ("YJPL"), a PRC equity joint venture established on 9 February, 2002 and is owned as to 93 per cent. by Jiwa Pharm & Chemicals Limited and as to 7 per cent. by Yunnan Jiwa Pharm-Tech Co. Ltd. ("YJPT"). Jiwa Pharm & Chemicals Limited is owned as to 60 per cent. by Lau Yau Bor and as to 40 per cent. by Lau Kin Tung, who are both executive Directors of the Company. Details of the connected transactions with YJPL for the Period were disclosed in note 31 to the financial statements and the nature of the transactions together with non-competition deed disclosed in the sub-sections headed "Connected transactions" and "Non-Competition Undertakings" in the section headed "Business" in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2005 are set out in note 22 to the financial statements.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 71 and 72 of the annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund scheme for its employees in Hong Kong and participates in a defined contribution retirement scheme organized by the PRC municipal government for its PRC employees. Particulars of these retirement schemes are set out in note 27 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2005.

AUDIT COMMITTEE

The audit committee, comprising of three Independent Non-executive Directors of the Company, Mr. Fung Tze Wa (Chairman of the audit committee), Mr. Choy Ping Sheung and Mr. Soo Ping Shu, Samuel, had reviewed with the management of the Company and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 March 2005.

POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 32 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors of the Company, the percentage of the Shares which are in the hands of the public exceeds 25% of the total number of issued Shares.

AUDITORS

The term of office of Grant Thornton will expire at the forthcoming Annual General Meeting. A resolution for the re-appointment of auditors of the Company for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors

Lau Kin Tung
Vice Chairman and Chief Executive Officer

Hong Kong, 5 July 2005

Auditors' Report

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

To the members of Jiwa Bio-Pharm Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong
5 July 2005

Consolidated Income Statement

For the year ended 31 March 2005

	Note	**2005** **HK$'000**	2004 HK$'000
Turnover	3	**179,226**	202,950
Cost of sales		**(86,291)**	(95,638)
Gross profit		**92,935**	107,312
Other revenue	4	**692**	387
Other net income/(loss)	4	**77**	(98)
Selling expenses		**(16,595)**	(24,521)
Administrative expenses		**(31,438)**	(22,414)
Other operating expenses		**(2,196)**	(1,811)
Profit from operations		**43,475**	58,855
Finance costs	5(a)	**(3,652)**	(1,273)
Profit before taxation	5	**39,823**	57,582
Taxation	6	**(5,673)**	(5,054)
Profit before minority interests		**34,150**	52,528
Minority interests		**(4,639)**	(11,509)
Profit attributable to shareholders		**29,511**	41,019
Final dividend proposed after the balance sheet date	10(a)	**7,500**	6,500
Earnings per share			
Basic	11(a)	**5.9 cents**	9.8 cents
Diluted	11(b)	**5.9 cents**	9.8 cents

Consolidated Balance Sheet

As at 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**126,284**	69,071
Construction in progress	14	**24,742**	61,664
Investment securities	15	**1,148**	1,148
Goodwill	16	**880**	–
Intangible assets	17	**596**	–
Deferred tax assets	24	**5,436**	5,701
		159,086	137,584
Current assets			
Inventories	19	**29,287**	18,145
Accounts and bills receivable	20	**64,683**	43,866
Prepayments and other receivables		**21,151**	16,217
Amounts due from related companies	21, 31(c)	**10,683**	23,039
Tax recoverable		**1,695**	1,256
Cash at banks and in hand		**56,682**	87,327
		184,181	189,850
Current liabilities			
Bank loans	22	**42,453**	19,322
Accounts and bills payable	23	**22,935**	23,119
Amount due to a related company	31(c)	**–**	2,972
Accrued expenses and other payables		**7,196**	4,792
Tax payable		**377**	1,295
		72,961	51,500
Net current assets		**111,220**	138,350
Total assets less current liabilities		**270,306**	275,934
Non-current liabilities			
Bank loans	22	**47,170**	74,644
Minority interests		**36,277**	37,122
Net assets		**186,859**	164,168
CAPITAL AND RESERVES			
Share capital	25	**5,000**	5,000
Reserves	26	**181,859**	159,168
		186,859	164,168

Lau Yau Bor
Director

Lau Kin Tung
Director

Balance Sheet

As at 31 March 2005

	Note	**2005 HK$'000**	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	18	**82,380**	82,380
Current assets			
Amounts due from subsidiaries		**65,999**	46,139
Cash at banks and in hand		**4,223**	11,018
		70,222	57,157
Current liabilities			
Accrued expenses and other payables		**–**	84
Net current assets		**70,222**	57,073
Net assets		**152,602**	139,453
CAPITAL AND RESERVES			
Share capital	25	**5,000**	5,000
Reserves	26	**147,602**	134,453
		152,602	139,453

Lau Yau Bor
Director

Lau Kin Tung
Director

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Profit before taxation		**39,823**	57,582
Adjustments for:			
Interest income		**(488)**	(269)
Interest expenses		**3,652**	1,273
Service fee to Rintech Inc		**234**	–
Depreciation of property, plant and equipment		**6,320**	3,813
Impairment loss on property, plant and equipment written back		**(804)**	–
Amortisation of intangible assets		**17**	–
Amortisation of goodwill		**38**	–
Loss/(Gain) on disposal of property, plant and equipment		**84**	(28)
Operating profit before working capital changes		**48,876**	62,371
(Increase)/Decrease in inventories		**(11,142)**	6,335
Increase in accounts and bills receivable		**(20,817)**	(20,121)
(Increase)/Decrease in prepayments and other receivables		**(4,934)**	9,523
Decrease/(Increase) in amounts due from related companies		**8,412**	(1,614)
Decrease in accounts and bills payable		**(184)**	(2,292)
Increase/(Decrease) in accrued expenses and other payables		**2,404**	(1,266)
Net cash inflow from operations		**22,615**	52,936
Tax paid			
Hong Kong profits tax paid		**(5,627)**	(4,435)
Taxation outside Hong Kong paid		**(1,138)**	(1,546)
Net cash generated from operating activities		**15,850**	46,955
Cash flows from investment activities			
Payment for purchase of property, plant and equipment and construction in progress		**(24,984)**	(65,163)
Proceeds from disposal of property, plant and equipment		**20**	56
Payment for acquisition of a subsidiary, net of cash acquired	29	**–**	3,671
Payment for acquisition of intangible assets		**(613)**	–
Payment for further acquisition of a subsidiary	(iii)	**(5,984)**	–
Interest received		**488**	269
Net cash used in investing activities		**(31,073)**	(61,167)

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from financing activities			
Proceeds from bank loans		**42,453**	66,039
Repayment of bank loans		**(46,796)**	(40,222)
Interest paid		**(4,579)**	(3,286)
Net proceeds from issuance of new shares		**–**	57,409
Dividends paid		**(6,500)**	(16,000)
Dividends paid to minority shareholders		**–**	(3,632)
Net cash (used in)/generated from financing activities		**(15,422)**	60,308
Net (decrease)/increase in cash		**(30,645)**	46,096
Cash at the beginning of the year		**87,327**	41,231
Cash at the end of the year		**56,682**	87,327

Non-cash transactions

(i) On 25 April 2003, the registered capital of Kunming Jida Pharmaceutical Company Limited ("KJP"), a subsidiary of the Company, was increased from RMB53,710,000 to RMB71,710,000. This was effected through the capitalization of enterprise expansion fund of RMB3,000,000 and dividends receivable by Jiwa Pharmaceuticals Limited ("JPL"), a subsidiary of the Company and Yunnan Pharmaceutical and Industrial Corporation Limited ("YPIC"), the minority shareholder, of RMB9,750,000 and RMB5,250,000 respectively.

(ii) On 2 August 2004, the registered capital of KJP was further increased from RMB71,710,000 to RMB86,710,000. To maintain their respective shareholding percentages, JPL and YPIC have capitalized the dividend receivable from KJP of RMB9,750,000 and RMB5,250,000 respectively, for reinvestment in KJP.

(iii) On 28 October 2004, JPL acquired a further 5% interest in KJP from YPIC for a total consideration of HK$6,957,000 settled by cash of HK$5,984,000 and 5% of KJP's profit from 1 January 2004 to 31 October 2004 equivalent to HK$973,000 which is to be settled through future distribution of dividend in KJP.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Note	**2005** **HK$'000**	2004 HK$'000
Shareholders' equity at 1 April		**164,168**	81,740
Net profit for the year	26	**29,511**	41,019
Dividends approved during the year/prior to listing	10	**(6,500)**	(16,000)
Reserve adjustment	26	**(320)**	–
Movements in share capital:			
Capital elimination upon combination	25	**–**	(2,200)
Issuance of shares for the acquisition of subsidiaries	25	**–**	200
Contributed surplus arising from reorganisation	26	**–**	2,000
Shares issued under the placing and public offer	25	**–**	1,500
Net share premium received	26	**–**	55,909
Net increase in shareholders' equity arising from capital transactions with shareholders		**–**	57,409
Shareholders' equity at 31 March		**186,859**	164,168

1. GENERAL INFORMATION

Jiwa Bio-Pharm Holdings Limited (the "Company") was incorporated in Bermuda on 19 June 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 14 October 2003.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in manufacture, sale and trading of pharmaceutical and health care products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 33 to 70 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at gross amount less accumulated amortisation and impairment losses.

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

In the Company's balance sheet, subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(e) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Land and buildings	20-50 years
Motor vehicles	3 years
Plant and machinery	5-15 years
Furniture, fixtures and equipment	5 years

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(f) Construction in progress

Construction in progress is stated at cost less impairment losses. The cost comprises construction costs including direct materials, labour, contractors' fees, interest expenses, overheads and cost of plant and machineries attributable to bringing the production facilities to its present condition.

When the construction or installation is completed, the relevant cost of construction in progress is transferred to the appropriate categories of property, plant and equipment.

(g) Investment securities

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less impairment losses. Impairment losses are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. Impairment losses are charged to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Investment securities (Continued)

The gain or loss on disposal of investment securities, being the difference between the net sales proceeds and the carrying amount of the securities, is accounted for in the period in which the disposal occurs.

(h) Intangible assets

Intangible assets representing technical know-how acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the exclusive rights protection period.

Expenditure on research activities and other development costs are recognised as expenses as incurred.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(j) Impairment

The carrying amounts of the Group's non-current assets except for deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For investment securities carried at cost, their carrying amounts are reviewed at the balance sheet date in order to assess whether the fair value of such securities has declined below the carrying amount. If such a decline occurs the carrying amount of the investment securities is reduced to the fair value unless there is evidence that the decline is temporary. For intangible assets and construction in progress that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment (Continued)

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Income tax (Continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Tax refund is recognised in the income statement as a reduction of the tax expense when the right to receive payment is established, which is taken to be the point of time when the relevant approval document is issued by the relevant government authorities.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) Employee benefits

(i) Contributions to retirement benefit schemes are recognised as an expense in the consolidated income statement as incurred.

(ii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Recognition of revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(o) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(p) Borrowing costs

Costs incurred on borrowings that are directly attributable to the construction of Good Manufacturing Practice ("GMP") production facility in Kunming are capitalised as part of the cost of the factory building up to the completion of its construction. Any other borrowing costs are charged to the income statement in the period in which they are incurred.

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions balances are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. TURNOVER

The Group is principally engaged in the manufacturing and sales of pharmaceutical products and health care products.

Turnover represents the sales value of goods sold less returns and discounts.

4. OTHER REVENUE AND NET INCOME/(LOSS)

	2005 HK$'000	2004 HK$'000
Other revenue		
Interest income	**488**	269
Others	**204**	118
	692	387
Other net income/(loss)		
Net exchange loss	**(66)**	(126)
Net (loss)/gain on disposal of property, plant and equipment	**(84)**	28
Net income from insurance claims	**227**	–
	77	(98)

5. PROFIT BEFORE TAXATION

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

	2005 HK$'000	2004 HK$'000
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	**4,579**	3,286
Less: Borrowing costs capitalised into construction in progress	**(927)**	(2,013)
	3,652	1,273
Annual capitalization rate of borrowing costs	**5.0%**	5.0%
(b) Staff costs:		
Salaries, wages and other benefits	**16,271**	14,989
Contributions to defined contribution retirement plans	**1,135**	947
	17,406	15,936

5. PROFIT BEFORE TAXATION (Continued)

Note:

Staff costs include operating lease charges in respect of premises totalling HK$1,398,000 (2004: HK$810,000) which are also included in total operating lease charges in respect of premises disclosed in Note 5(c) below.

		2005	2004
		HK$'000	HK$'000
(c)	Other items:		
	Costs of inventories sold (i)	**84,440**	93,620
	Auditors' remuneration (ii)	**390**	855
	Depreciation	**6,320**	3,813
	Amortisation of goodwill	**38**	–
	Amortisation of intangible assets	**17**	–
	Reversal of impairment loss on land and building	**(804)**	–
	Operating lease charges in respect of premises		
	– minimum lease payments	**2,472**	1,806
	– contingent rental	**–**	134
	Research and development costs (iii)	**2,285**	1,715
	Write back of provision for bad and doubtful debts	**–**	(532)

Notes:

(i) Cost of inventories sold includes HK$5,618,000 (2004: HK$4,807,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

(ii) Auditors' remuneration includes HK$90,000 relating to under-provision of last year's audit fee.

(iii) Research and development costs comprise staff costs of HK$22,000 (2004: HK$289,000) which are also included in the total amount of staff costs disclosed above.

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Current tax – provision for Hong Kong profits tax		
Tax for the year	**4,760**	4,401
Over provision in respect of prior years	**(18)**	(5)
	4,742	4,396
Current tax – outside Hong Kong		
Provision for PRC income tax	**1,688**	2,829
Tax refund	**(1,022)**	(2,649)
	666	180
Deferred tax		
Current year (Note 24)	**265**	478
	5,673	5,054

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit of the Group's operations in Hong Kong for the year.

Unless tax reliefs are available to the Group, the provision for current income tax in the People's Republic of China (the "PRC") is based on a statutory rate of 33% of the assessable income determined in accordance with the relevant income tax rules and regulations of the PRC.

Profits of KJP were subject to PRC income tax at 24%. As KJP is recognised as a new technology enterprise, according to Provisions on the Tax Policy of State High Technology Development Zone, Kunming, KJP is entitled to a reduced tax rate of 15%.

On 18 January 2002, KJP received an approval document from the local tax bureau, subject to annual application, a 50% tax relief for the period up to 31 December 2004. As stipulated by Implementation Procedures of the Ministry of Finance on the Adoption of Rules Governing Preferential Tax Treatments in the "Provisions of the State Council for the Encouragement of Foreign Investment", the minimum PRC income tax rate applicable to a new high technology enterprise is 10%. Accordingly, KJP was granted a preferential tax rate of 10% from 1 January 2002 to 31 December 2004 pursuant to approval documents issued by the local tax bureau on 14 March 2003 and 17 January 2004.

Pursuant to notices issued by the local tax bureau, PRC income tax of HK$1,022,000 (2004: HK$2,649,000) was refunded to KJP's foreign investor in relation to the reinvestment of profits in the PRC in accordance with the relevant tax rules and regulations.

6. TAXATION (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005 HK$'000	2004 HK$'000
Profit before tax	**39,823**	57,582
Tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**5,662**	7,523
Tax effect of non-deductible expenses	**151**	98
Tax effect of non-taxable revenue	**(169)**	(48)
Tax losses not recognised as deferred tax assets	**866**	–
Tax effect of temporary differences not recognised	**(77)**	–
Tax refund	**(1,022)**	(2,649)
Others	**280**	135
Over provision in prior years	**(18)**	(5)
Actual tax expense	**5,673**	5,054

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 HK$'000	2004 HK$'000
Fees	**218**	160
Salaries and other emoluments	**3,162**	2,460
Retirement scheme contributions	**22**	21
	3,402	2,641

Included in the directors' remuneration were fees of HK$218,000 (2004: HK$160,000) paid to independent non-executive directors during the year.

Three directors were granted share options during the year under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in note 28.

7. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors is within the following bands:

	2005 Number of directors	2004 Number of directors
HK$Nil-HK$1,000,000	**4**	4
HK$1,000,000-HK$1,500,000	**1**	1
HK$1,500,000-HK$2,000,000	**1**	–

During the year, no emoluments (2004: Nil) were paid by the Group to the directors or any of the five highest paid individuals (note 8) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have waived or agreed to waive any emoluments during the current and prior years.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2004: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2004: three) individuals are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other emoluments	**1,376**	1,317
Discretionary bonuses	**269**	314
Retirement scheme contributions	**36**	36
	1,681	1,667

The emoluments of the three (2004: three) individuals with the highest emoluments are within the following bands:

	2005 Number of individuals	2004 Number of individuals
HK$Nil-HK$1,000,000	**3**	3

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of HK$19,649,000 (2004: loss of HK$336,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

(a) Dividends attributable to the year

	2005	2004
	HK$'000	HK$'000
Final dividend proposed after the balance sheet date of HK$0.015 per share (2004: HK$0.013 per share)	**7,500**	6,500

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2005	2004
	HK$'000	HK$'000
Final dividend in respect of the previous financial year approved and paid during the year of HK$0.013 per share	**6,500**	16,000

Prior to listing, on 14 July 2003, certain subsidiaries of the Group declared and approved final dividend of HK$16,000,000 in respect of the year ended 31 March 2003 to the then shareholders of these subsidiaries.

The dividend per share and the number of shares ranking for dividend for the year ended 31 March 2004 are not presented above as such information is not meaningful having regard to the consolidated financial statements.

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$29,511,000 (2004: HK$41,019,000) and on 500,000,000 ordinary shares (2004: the weighted average number of 418,750,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$29,511,000 (2004: HK$41,019,000) and the 500,221,383 ordinary shares (2004: the weighted average number of 418,751,543 shares) in issue during the year, after adjusting the effect of all dilutive potential shares under the Company's share option scheme.

11. EARNINGS PER SHARE (Continued)

(c) Reconciliation

	2005 Number of shares	2004 Number of shares
Number of ordinary shares used in calculating basic earnings per share	**500,000,000**	418,750,000
Deemed issue of ordinary shares for no consideration	**221,383**	1,543
Number of ordinary shares used in calculating diluted earnings per share	**500,221,383**	418,751,543

12. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments, information of which is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(i) Pharmaceutical products

Manufacturing and sale of pharmaceutical products.

(ii) Trading

Trading of pharmaceutical products.

(iii) Health care products

Manufacturing and sale of health care products.

12. SEGMENT REPORTING (Continued)

	Pharmaceutical products		Trading		Health care products		Inter-segment elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**109,712**	146,336	**60,658**	48,093	**8,856**	8,521	**–**	–	**179,226**	202,950
Inter-segment revenue	**6,578**	4,702	**–**	–	**–**	–	**(6,578)**	(4,702)	**–**	–
Total	**116,290**	151,038	**60,658**	48,093	**8,856**	8,521	**(6,578)**	(4,702)	**179,226**	202,950
Segment results	**30,096**	43,429	**19,122**	18,123	**1,624**	2,299	**(6,578)**	(4,702)	**44,264**	59,149
Unallocated operating income and expenses									**(789)**	(294)
Profit from operations									**43,475**	58,855
Finance costs									**(3,652)**	(1,273)
Taxation									**(5,673)**	(5,054)
Minority interests									**(4,639)**	(11,509)
Profit attributable to shareholders									**29,511**	41,019
Depreciation for the year	**5,323**	3,366	**900**	428	**97**	19	**–**	–	**6,320**	3,813
Amortisation of intangible assets	**17**	–	**–**	–	**–**	–	**–**	–	**17**	–
Unallocated amortisation of goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**38**	–
Impairment loss written back	**–**	–	**(804)**	–	**–**	–	**–**	–	**(804)**	–
Segment assets	**248,193**	182,623	**73,056**	44,939	**2,358**	1,151	**–**	–	**323,607**	228,713
Unallocated assets									**19,660**	98,721
Total assets									**343,267**	327,434
Segment liabilities	**17,442**	17,478	**12,681**	9,131	**318**	399	**–**	–	**30,441**	27,008
Unallocated liabilities									**89,690**	99,136
Total liabilities									**120,131**	126,144
Capital expenditure incurred during the year	**24,355**	87,127	**998**	501	**558**	–	**–**	–	**25,911**	87,628

The Group operates predominantly in the PRC. Accordingly, geographical segment information is not presented.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost					
At 1 April 2004	50,983	2,252	27,536	3,942	84,713
Additions	10,780	–	79	2,467	13,326
Disposals	–	–	(356)	–	(356)
Transfer from construction in progress (Note 14)	48,817	–	690	–	49,507
At 31 March 2005	**110,580**	**2,252**	**27,949**	**6,409**	**147,190**
Accumulated depreciation and impairment loss					
At 1 April 2004	4,226	1,237	9,029	1,150	15,642
Charge for the year	2,851	438	1,811	1,220	6,320
Impairment loss written back	(804)	–	–	–	(804)
Written back on disposal	–	–	(252)	–	(252)
At 31 March 2005	**6,273**	**1,675**	**10,588**	**2,370**	**20,906**
Net book value					
At 31 March 2005	**104,307**	**577**	**17,361**	**4,039**	**126,284**
At 31 March 2004	46,757	1,015	18,507	2,792	69,071

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) An analysis of net book value of land and buildings is as follows:

	2005 **HK$'000**	2004 HK$'000
Hong Kong		
– Long leases	**11,595**	10,996
Outside Hong Kong		
– Medium-term leases	**92,712**	35,761
	104,307	46,757

Long leases represent leases with an unexpired period not less than 50 years. Medium-term leases represent leases with an unexpired period less than 50 years but more than 10 years.

(b) The recovery of the property market has caused the Group to reassess the recoverable amount of the properties held. Based on that assessment, impairment loss of HK$804,000 previously made for the year ended 31 March 2003 was written back in the year 2005. The estimate of recoverable amount was determined based on directors' estimate of the open market value.

(c) Upon repayment of the Group's mortgage loans, as at 31 March 2005, none of the Group's property, plant and equipment is pledged to secure any of the bank loans and banking facilities (note 22).

	2005 **HK$'000**	2004 HK$'000
Net book value of pledged assets:		
Land and buildings in Hong Kong	**–**	6,856

14. CONSTRUCTION IN PROGRESS

	The Group	
	2005	2004
	HK$'000	HK$'000
At 1 April	**61,664**	4,520
Additions		
– through acquisition of a subsidiary	**–**	9,052
– others	**12,585**	60,967
Transfer to property, plant and equipment (Note 13)	**(49,507)**	(12,875)
At 31 March	**24,742**	61,664

Construction in progress at 31 March 2005 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming.

15. INVESTMENT SECURITIES

	The Group	
	2005	2004
	HK$'000	HK$'000
Unlisted equity securities in PRC, at cost	**1,148**	1,148

16. GOODWILL

	The Group
	HK$'000
Opening net book amount, at 1 April 2004	–
Addition	918
Amortisation charge (Note 5(c))	(38)
Closing net book amount, at 31 March 2005	**880**
At 31 March 2005	
Gross	918
Accumulated amortisation	(38)
Net book amount	**880**
At 31 March 2004	
Gross	–
Accumulated amortisation	–
Net book amount	–

The goodwill, which arose from the 5% further acquisition of KJP, a subsidiary of the Company, is amortised on a straight line basis over its estimated useful life of 10 years.

17. INTANGIBLE ASSETS

The Group

	Technical know-how
	HK$'000
Opening net book amount, at 1 April 2004	–
Addition	613
Amortisation charge (Note 5(c))	(17)
Closing net book amount, at 31 March 2005	**596**
At 31 March 2005	
Cost	613
Accumulated amortisation	(17)
Net book amount	**596**
At 31 March 2004	
Cost	–
Accumulated amortisation	–
Net book amount	–

18. INVESTMENT IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**82,380**	82,380

18. INVESTMENT IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries as at 31 March 2005 are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by subsidiary	Principal activities
Jiwa Development Co. Ltd.	British Virgin Islands ("BVI")	100,000 ordinary shares of US$0.5 each	100%	–	Investment holding
Jiwa International Limited	Hong Kong	1,000 ordinary shares of HK$1,000 each	–	100%	Trading of pharmaceutical products
Jiwa Pharmaceuticals Limited	Hong Kong	1,000 ordinary shares of HK$1,000 each	–	100%	Investment holding
Tech-Medi Development Limited	Hong Kong	200 ordinary shares of HK$1,000 each	–	100%	Trading of health care products
Kunming Jida Pharmaceutical Company Limited ("KJP")	PRC	RMB86,710,000	–	70%	Manufacturing and trading of pharmaceutical products
Yunnan Jiwa Pharm-Tech Co., Ltd ("YJPT")	PRC	US$800,000	–	100%	Research and development of pharmaceutical products
Jiwa Rintech Holdings Limited ("Jiwa Rintech")	BVI	10 ordinary shares of US$1 each	–	80%	Investment holding

All of these are controlled subsidiaries as defined under note 2(d) and have been consolidated into the Group's financial statements.

19. INVENTORIES

	The Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**10,233**	8,566
Work in progress	**7,958**	3,930
Finished goods	**11,096**	5,649
	29,287	18,145

None of the inventories is stated at net realisable value.

20. ACCOUNTS AND BILLS RECEIVABLE

Customers are generally granted with credit terms ranging from 30 days to 180 days. An ageing analysis of the accounts and bills receivable is as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**63,293**	36,732
Aged over 3 months but less than 6 months	**894**	3,327
Aged over 6 months	**496**	128
	64,683	40,187
Bills receivable	**–**	3,679
	64,683	43,866

All of the above balances are expected to be recovered within one year.

21. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies were unsecured, interest-free and repayable on demand.

22. BANK LOANS

At 31 March 2005, the bank loans were repayable as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year or on demand	**42,453**	19,322
After 1 year but within 2 years	**47,170**	–
After 2 years but within 5 years	**–**	72,706
After 5 years	**–**	1,938
	47,170	74,644
	89,623	93,966

At 31 March 2005, the bank loans and overdrafts were as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Bank loans		
– secured	**–**	4,343
– unsecured	**89,623**	89,623
	89,623	93,966

At 31 March 2004, legal charge over a property of the Group with a carrying value of HK$6,856,000 was used to secure banking facilities of the Group totalling HK$21,000,000. The charge over the Group's property has been released in the year 2005.

23. ACCOUNTS AND BILLS PAYABLE

An ageing analysis of accounts and bills payable is as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Accounts payable		
– Due within 1 month or on demand	**12,476**	2,237
– Due after 1 month but within 3 months	**1,849**	14,553
– Due after 3 months but within 6 months	**3,627**	–
	17,952	16,790
Bills payable	**4,983**	6,329
	22,935	23,119

All of the above balances are expected to be settled within one year.

24. DEFERRED TAX

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation HK$'000	Internally generated intangible assets HK$'000	Others HK$'000	Total HK$'000
Deferred tax arising from:				
At 1 April 2003	2,545	3,419	215	6,179
Charged to consolidated income statement	(86)	(177)	(215)	(478)
At 31 March and 1 April 2004	2,459	3,242	–	5,701
Charged to consolidated income statement	(176)	(89)	–	(265)
At 31 March 2005	**2,283**	**3,153**	**–**	**5,436**

The Group has not recognised deferred tax assets in respect of unused tax losses of HK$866,000 (2004: HK$Nil) because of the unpredictability of future profit streams. These tax losses will expire in 2009.

25. SHARE CAPITAL

	2005 Number of shares	**2005** Amount HK$'000	2004 Number of shares	2004 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**1,000,000,000**	**10,000**	1,000,000,000	10,000
Issued and fully paid:				
At 1 April (i)	**500,000,000**	**5,000**	2,200	2,200
Capital elimination on consolidation (i)	–	–	(2,200)	(2,200)
Issuance of shares (iv)	–	–	20,000,000	200
Capitalisation issue (v)	–	–	330,000,000	3,300
Share issued under the placing and public offer (vi)	–	–	150,000,000	1,500
At 31 March	**500,000,000**	**5,000**	500,000,000	5,000

25. SHARE CAPITAL (Continued)

Notes:

(i) Pursuant to the reorganisation of the Company and its subsidiaries, the Company became the holding company of the Group on 24 September 2003. The share capital in the consolidated balance sheet as at 31 March 2003 represented the aggregate amount of the nominal value of the issued share capitals of Jiwa International Limited, Jiwa Pharmaceuticals Limited and Tech-Medi Development Limited, the subsidiaries of the Company.

(ii) The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) on 19 June 2002 with an authorised share capital of HK$100,000 divided into 10,000,000 shares ("nil-paid shares"), all of which were allotted and issued nil-paid. Accordingly, the share capital of the Company at 31 March 2003 was HK$Nil.

(iii) Pursuant to the written resolution of the shareholders of the Company dated 24 September 2003, the authorised share capital of the Company was increased from HK$100,000 to HK$10,000,000 by the creation of an additional 990,000,000 shares of HK$0.01 each.

(iv) Pursuant to the written resolutions of the shareholders of the Company passed on 24 September 2003, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of Jiwa Development Co. Ltd., the Company issued 10,000,000 shares of HK$0.01 each, credited as fully paid shares at par and the 10,000,000 nil-paid shares (note (ii) above) were credited as fully paid.

(v) Pursuant to the written resolutions of the shareholders of the Company passed on 24 September 2003, an amount of HK$3,300,000 standing to the credit of the Company's share premium account was applied in paying up in full at par 330,000,000 shares of HK$0.01 each for allotment and issue to persons whose names appeared on the register of members of the Company at the close of business on 24 September 2003 (as nearly as possible without involving fractions) to its or their then existing shareholdings in the Company.

(vi) On 14 October 2003, an aggregate of 150,000,000 shares of HK$0.01 each were issued and offered for subscription at a price of HK$0.48 per share upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. The Group raised approximately HK$57,409,000 (including interest income net of related expenses) from the share offer.

(vii) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

26. RESERVES

The Group

	Share premium HK$'000	Contributed surplus HK$'000	General reserve fund (iii) HK$'000	Enterprise expansion fund (iii) HK$'000	Revaluation adjustment (iv) HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2003	–	–	25	2,855	–	–	76,660	79,540
Dividend approved in respect of the previous year (Note 10(b))	–	–	–	–	–	–	(16,000)	(16,000)
Arising on reorganisation	–	2,000	–	–	–	–	–	2,000
Transfer to reserve (iii)	–	–	17	17	–	–	(34)	–
Capitalisation of enterprise expansion fund (ii)	–	–	–	(2,830)	–	2,830	–	–
Share premium from issuance of shares	70,500	–	–	–	–	–	–	70,500
Issuing costs	(14,591)	–	–	–	–	–	–	(14,591)
Capitalisation issue (Note 25(v))	(3,300)	–	–	–	–	–	–	(3,300)
Profit for the year	–	–	–	–	–	–	41,019	41,019
At 31 March and 1 April 2004	52,609	2,000	42	42	–	2,830	101,645	159,168
Dividend approved in respect of the previous year (Note 10(b))	–	–	–	–	–	–	(6,500)	(6,500)
Transfer to reserve (iii)	–	–	20	21	–	–	(41)	–
Revaluation adjustment (iv)	–	–	–	–	(320)	–	–	(320)
Profit for the year	–	–	–	–	–	–	29,511	29,511
At 31 March 2005	**52,609**	**2,000**	**62**	**63**	**(320)**	**2,830**	**124,615**	**181,859**

Retained profits represent:	**2005 HK$'000**	2004 HK$'000
Final dividend proposed (Note 10(a))	**7,500**	6,500
Others	**117,115**	95,145
At 31 March	**124,615**	101,645

26. RESERVES (Continued)

The Company

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2003	–	–	–	–
Arising on reorganisation (i)	–	82,180	–	82,180
Loss for the year	–	–	(336)	(336)
Share premium from issuance of shares	70,500	–	–	70,500
Capitalisation issue (Note 25(v))	(3,300)	–	–	(3,300)
Issuing costs	(14,591)	–	–	(14,591)
At 31 March and 1 April 2004	52,609	82,180	(336)	134,453
Dividend approved in respect of the previous year (Note 10(b))	–	–	(6,500)	(6,500)
Profit for the year	–	–	19,649	19,649
At 31 March 2005	**52,609**	**82,180**	**12,813**	**147,602**

Retained profits represent:	**2005 HK$'000**	2004 HK$'000
Final dividend proposed (Note 10(a))	**7,500**	6,500
Others	**5,313**	(6,836)
At 31 March	**12,813**	(336)

Notes:

(i) Pursuant to the Reorganisation, the Company became the holding company of the Group on 24 September 2003. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provision under section 54 of the Companies Act.

(ii) Upon completion of the capital verification on 25 April 2003, KJP capitalised the enterprise expansion fund of RMB3,000,000 to its registered share capital according to a board resolution dated 18 January 2003. The amount was recognised as capital reserve in the consolidated balance sheet.

(iii) In accordance with the articles of association and equity joint venture agreement, the subsidiaries in the PRC are required to set up a general reserve fund and an enterprise expansion fund, which are non-distributable. The transfers of these reserves are at discretion of the directors of the respective subsidiaries.

(iv) Revaluation adjustment represents the fair value adjustment which is attributed to the 5% increase in the shareholding of KJP. It is the portion of revaluation difference that arose since the original acquisition date that is attributable to the increase in the Group's interest. This reserve adjustment will be recognised in the income statement upon the earlier of the disposal of the subsidiary or the disposal by the subsidiary of the assets to which it relates.

27. RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement scheme (the "Scheme") organised by the PRC municipal government whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on 25% of the payroll costs of the eligible employees. The PRC municipal government is responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Scheme.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

28. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and consultants and advisers to the Group (subject to the eligibility requirements) to take up options to subscribe for shares of the Company representing up to a maximum of 10% of the shares in issue from time to time. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vested are exercisable within a period of five years from date of grant. Each option gives the holder the right to subscribe for one share.

(a) Movements in share options

	2005 Number	2004 Number
At 1 April	**9,266,000**	–
Issued	**20,000,000**	9,266,000
Exercised	**–**	–
Cancelled	**(12,266,000)**	–
At 31 March	**17,000,000**	9,266,000
Option vested at 31 March	**17,000,000**	9,266,000

28. EQUITY COMPENSATION BENEFITS (Continued)

(b) Terms of unexpired and unexercised share options at the balance sheet date

Date granted	Market price at the date of grant	Exercise period	Exercise price	2005 Number	2004 Number
31 March 2004	HK$0.375	31 March 2004 to 30 March 2009	HK$0.377	**2,000,000** (Note (i))	9,266,000
4 May 2004	HK$0.295	4 May 2004 to 3 May 2009	HK$0.310	**4,000,000**	–
29 December 2004	HK$0.330	29 December 2004 to 28 December 2009	HK$0.336	**11,000,000**	–
				17,000,000	9,266,000

Note (i): 7,266,000 share options were cancelled on 28 April 2004.

(c) Details of share options granted during the year

Exercise period	Exercise price	2005 Number	2004 Number
31 March 2004 to 30 March 2009	HK$0.377	**–**	9,266,000
1 April 2004 to 31 March 2009 (Note (i))	HK$0.400	**5,000,000**	–
4 May 2004 to 3 May 2009	HK$0.310	**4,000,000**	–
29 December 2004 to 28 December 2009	HK$0.336	**11,000,000**	–
		20,000,000	9,266,000

The consideration paid by each individual for the options granted was HK$1.

Note (i): This share option was cancelled on 21 December 2004.

29. ACQUISITION OF A SUBSIDIARY

On 7 February 2004, the Group acquired the entire equity interest of YJPT for a consideration of HK$6,240,000, satisfied in cash.

	2004 HK$'000
Net assets acquired	
Property, plant and equipment	11,400
Construction in progress	9,052
Investment securities	1,148
Cash and cash equivalents	9,911
Prepayments and other receivables	8,476
Accrued expenses and other payables	(728)
Bank loans	(33,019)
Total purchase consideration paid for net identifiable assets and liabilities acquired, satisfied in cash	6,240
Less: Cash of the subsidiary acquired	(9,911)
Net cash inflow in respect of the acquisition of the subsidiary	(3,671)

30. COMMITMENTS

(a) At 31 March 2005, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	**1,882**	486
After 1 year but within 5 years	**857**	34
	2,739	520

The Group leases a number of properties under operating leases. The leases run for periods from one year to two years.

The Company had no operating lease commitment as at 31 March 2005 (2004: Nil).

(b) Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Contracted for		
– acquisition of property, plant and equipment	**–**	16,791
– acquisition of technical know-how	**1,226**	1,402
	1,226	18,193
Authorised but not contracted for		
– acquisition of property, plant and equipment	**5,817**	–
	7,043	18,193

The Company had no capital commitment as at 31 March 2005 (2004: Nil).

31. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:

(a) Recurring

	Note	**2005 HK$'000**	2004 HK$'000
Sales of goods:			
– Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	(i)	**24,385**	24,366
– Yunnan Jiwa Pharm Logistics Company Limited ("YJPL")	(ii)	**2,592**	16,862
Purchase of goods:			
– Yunnan Pharm Group	(i)	**–**	436
– YJPL	(ii)	**312**	–
Rentals paid:			
– Mr Lau Yau Bor	(iii)	**82**	58
– Jiwa Investment Limited	(iv)	**1,977**	1,116

Notes:

(i) The Group sold pharmaceutical products to Yunnan Pharm Group at a price calculated with reference to the price charged to other independent customers. Yunnan Pharmaceutical and Industrial Corporation Limited is the minority shareholder of KJP.

(ii) YJPL is controlled by certain directors of the Company. Sales to and purchases from YJPL were at prices calculated with reference to the actual production costs incurred plus a margin.

(iii) A director of the Company, Mr Lau Yau Bor, leased certain properties in the PRC to the Group. The terms were negotiated on an arm's length basis and the rental is in accordance with the prevailing market rate.

(iv) Jiwa Investment Limited, which is controlled by certain directors of the Company, leased staff quarters and office premises to the Group. The terms were negotiated on an arm's length basis and rentals are determined in accordance with the prevailing market rate.

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring

	Note	**2005** **HK$'000**	2004 HK$'000
Acquisition of a subsidiary	(i)	**–**	6,240
Service fee	(ii)	**234**	–

Notes:

(i) On 7 February 2004, the Group acquired the entire equity interest of YJPT from Jiwa Pharm and Chemicals Limited, which is controlled by the directors of the Company, for a consideration of HK$6,240,000, satisfied in cash.

(ii) Service fee was paid to Rintech Inc, the minority shareholder of a subsidiary, Jiwa Rintech, in accordance with the joint venture agreement. Settlement of the said service fee was satisfied by 2 ordinary shares of US$1 each of Jiwa Rintech.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of the Group's business.

(c) Amounts due from/(to) related companies at 31 March 2005

(i) Amounts due from related companies

	The Group	
	2005 **HK$'000**	2004 HK$'000
Yunnan Jiwa Pharm Logistics Company Limited	**7,925**	17,664
Yunnan Pharm Group	**–**	3,790
Yunnan Pharmaceutical and Industrial Corporation Limited	**2,758**	–
Jiwa Pharm and Chemicals Limited	**–**	1,585
	10,683	23,039

(ii) Amount due to a related company

	The Group	
	2005 **HK$'000**	2004 HK$'000
Yunnan Pharmaceutical and Industrial Corporation Limited	**–**	2,972

32. POST BALANCE SHEET EVENTS

(a) Sale of a wholly owned subsidiary, YJPT to a 70% owned subsidiary, KJP

Pursuant to a share transfer agreement entered into between YJPT, a wholly owned subsidiary of the Group, and KJP, a 70% owned subsidiary of the Group, on 20 December 2004, YJPT was sold to KJP for a consideration of approximately RMB17.93 million (equivalent to approximately HK$16.9 million). The share transfer was approved by the Kunming National High Tech Industry Development Zone Administration Bureau of the PRC on 28 January 2005 and a new business licence was issued by The State Administration of Industry and Commerce of the PRC on 5 February 2005. Sale proceeds was received from KJP on 20 April 2005, which is taken as the date of completion of the transaction. The rationale for this transaction is to improve operating efficiencies at the plant level. The directors are currently assessing the impact of this transaction and an estimate of the gain or loss on this transaction cannot be made at this stage.

(b) Joint venture in manufacturing pharmaceutical bulk materials in the PRC

On 8 December 2004, the Group incorporated a 80% held subsidiary, Jiwa Rintech in the British Virgin Islands, with the remaining 20% held by a United States ("U.S.") company Rintech Inc. Capital contributions to Jiwa Rintech would be made in two stages resulting ultimately in a paid up capital of US$3 million. On 25 May 2005, the Group's 80% subsidiary Jiwa Rintech entered into a Capital Injection Agreement with three independent parties in the PRC to inject RMB24 million (or approximately HK$22.6 million) representing 80% of capital of, Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JRPCL"), a company incorporated in the PRC as a sino-foreign equity joint venture with limited liabilities. The injection was made on 8 June 2005. The purpose of the investment in JRPCL is to manufacture pharmaceutical bulk materials in the PRC mainly for export to the U.S. Details of the agreement can be found in the Company's announcement dated 25 May 2005 and the Company's circular to its shareholders dated 13 June 2005.

(c) Investment in Yunnan Pharmaceutical Materials Limited ("YPML")

On 26 May 2005, the Group entered into a share transfer agreement with the Employees' Shareholding Association of YPML (the "vendor") to purchase a 23.81% interest in YPML from the vendor for a consideration of RMB5.3 million (approximately HK$5 million). The purpose of the investment in YPML is to enhance the Group's research and development capability in the area of traditional Chinese medicines. Details of the agreement can be found in the Company's announcement dated 26 May 2005 and the Company's circular to its shareholders dated 13 June 2005.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 33 to 70 were approved by the board of directors on 5 July 2005.

Five Years Financial Summary

(Expressed in Hong Kong dollars)

The results of the Group for the last five financial years are as follows:

	Year ended 31 March				
	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	**2005** **HK$'000**
Turnover	177,909	186,395	188,762	202,950	**179,226**
Profit from operations	31,706	39,679	45,275	58,855	**43,475**
Finance cost	(364)	(839)	(1,600)	(1,273)	**(3,652)**
Profit from ordinary activities before taxation	31,342	38,840	43,675	57,582	**39,823**
Taxation	(735)	(5,029)	(3,930)	(5,054)	**(5,673)**
Minority interests	(8,282)	(9,018)	(8,932)	(11,509)	**(4,639)**
Profit attributable to shareholders	22,325	24,793	30,813	41,019	**29,511**
Earnings per share					
Basic (cents)	6.38	7.08	8.80	9.80	**5.9**
Diluted (cents)	N/A	N/A	N/A	9.80	**5.9**

Five Years Financial Summary

(Expressed in Hong Kong dollars)

The assets and liabilities of the Group for the last five years are as follows:

	At 31 March				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Property, plant and equipment	16,599	31,495	42,428	69,071	**126,284**
Construction in Progress	1,020	205	4,520	61,664	**24,742**
Investment securities	-	-	-	1,148	**1,148**
Deferred tax assets	6,548	6,506	6,179	5,701	**5,436**
Intangible assets	-	-	-	-	**596**
Goodwill	-	-	-	-	**880**
	24,167	38,206	53,127	137,584	**159,086**
Current assets	96,511	129,409	128,834	189,850	**184,181**
Current liabilities	59,080	90,685	72,247	51,500	**72,961**
Net current assets	37,431	38,724	56,587	138,350	**111,220**
Total assets less current liabilities	61,598	76,930	109,714	275,934	**270,306**
Non-current liabilities	10,736	-	4,342	74,644	**47,170**
Minority interests	16,728	18,003	23,632	37,122	**36,277**
	34,134	58,927	81,740	164,168	**186,859**
Share capital	2,200	2,200	2,200	5,000	**5,000**
Reserves	31,934	56,727	79,540	159,168	**181,859**
	34,134	58,927	81,740	164,168	**186,859**

Notes:

The Company was incorporated in Bermuda on 19 June 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company became the holding company of the Group on 24 September 2003 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 April 2000, rather than from 24 September 2003. Accordingly, the results of the Group for the five years ended 31 March 2005 have been prepared on the basis of merger accounting as if the Group structure immediately after the Reorganisation had been in existence since 1 April 2000. This financial summary includes the results of the Company and its subsidiaries with effect from 1 April 2000 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 March 2001, 2002 and 2003 are the combination of the balance sheets of the Company and its subsidiaries at 31 March 2001, 2002 and 2003. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred tax from 1 April 2003. There is no effect on the Group's net profits and net assets for the years presented as a result of the adoption of this accounting policy.