



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

(incorporated in Bermuda with limited liability)

(Stock Code: 2327)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2006

The directors (the “Directors”) of Jiwa Bio-Pharm Holdings Limited (the “Company”) are pleased to present the audited annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 March 2006 (the “Period”) together with the comparative figures for the corresponding period in 2005 as follows:

CONSOLIDATED INCOME STATEMENT (AUDITED)

For the year ended 31 March 2006

		2006 HK\$'000	2005 HK\$'000 (Restated)
	<i>Notes</i>		
Revenue	4	170,285	179,226
Cost of sales		(96,473)	(86,291)
Gross profit		73,812	92,935
Other income	5	3,796	769
Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition		4,986	—
Selling expenses		(14,307)	(16,595)
Administrative expenses		(36,645)	(31,381)
Other operating expenses		(3,280)	(2,196)
Profit from operations		28,362	43,532
Finance costs		(3,757)	(3,652)
Profit before income tax	6	24,605	39,880
Income tax	7	(1,594)	(5,673)
Profit for the year		23,011	34,207
Attributable to:			
Equity holders of the Company		19,459	29,568
Minority interests		3,552	4,639
Profit for the year		23,011	34,207
Final dividend proposed after the balance sheet date	8	5,000	7,500
Earnings per share for profit attributable to equity holders of the Company during the year			
Basic	9(a)	3.9 cents	5.9 cents
Diluted	9(b)	N/A	5.9 cents

CONSOLIDATED BALANCE SHEET (AUDITED)*As at 31 March 2006*

	2006 HK\$'000	2005 <i>HK\$'000</i> (Restated)
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	125,357	107,021
Land use rights	26,686	19,051
Construction in progress	34,524	24,742
Available for sale financial assets	1,181	1,148
Goodwill	906	880
Intangible assets	403	596
Deferred tax assets	5,519	5,436
	<hr/> 194,576	<hr/> 158,874
Current assets		
Inventories	28,139	29,287
Accounts and bills receivable	67,806	64,683
Land use rights	637	383
Prepayments and other receivables	16,778	21,151
Amounts due from related companies	12	10,683
Tax recoverable	3,488	1,695
Cash and cash equivalents	27,738	56,682
	<hr/> 144,598	<hr/> 184,564
Current liabilities		
Bank loans	47,772	42,453
Accounts and bills payable	23,058	22,935
Amount due to a related company	428	–
Accrued expenses and other payables	10,324	7,196
Tax payable	–	377
	<hr/> 81,582	<hr/> 72,961
Net current assets	<hr/> 63,016	<hr/> 111,603
Total assets less current liabilities	257,592	270,477
Non-current liabilities		
Bank loans	16,928	47,170
Net assets	<hr/> 240,664	<hr/> 223,307
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	5,000	5,000
Reserves	200,735	182,030
	<hr/> 205,735	<hr/> 187,030
Minority interests	34,929	36,277
Total equity	<hr/> 240,664	<hr/> 223,307

Notes:

1. GENERAL INFORMATION

Jiwa Bio-Pharm Holdings Limited (the “Company”) is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is 2904 and 2906, Tower One, Lippo Centre, 89 Queensway, Central, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (the “Group”) include manufacturing, sales and trading of pharmaceutical and health care products. The Group has manufacturing plants in the People’s Republic of China (“PRC”) and sells mainly in PRC.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 April 2005, the Group has adopted for the first time the new or revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 March 2005.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

(a) Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

(b) Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively. Where the land and buildings elements cannot be allocated reliably, the entire lease payments continues to be treated as finance leases and included in property, plant and equipment.

(c) Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies:

Goodwill

Goodwill arising on acquisition prior to 1 April 2005 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 April 2005 and the accumulated amortisation at 31 March 2005 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash generating units.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement in the period in which the acquisition takes place.

Intangible assets (other than goodwill)

No adjustments to prior period financial statements were deemed to be necessary as a result of the reassessment of the useful lives of its intangible assets in accordance with the provision of HKAS 38.

(d) Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

(e) The effect of changes in the accounting policies on the consolidated income statement is summarised below:

	Effect of adopting HKAS 17 HK\$'000
Year ended 31 March 2006	
Increase in profit – net decrease in depreciation/amortisation charges	<u>48</u>
Year ended 31 March 2005	
Increase in profit – net decrease in depreciation/amortisation charges	<u>57</u>

- (f) **The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:**

	Effect of adopting HKAS 17 HK\$'000	Effect of adopting HKFRS 3 HK\$'000	Total HK\$'000
At 1 April 2004 (Equity only)			
Increase in equity	114	–	114
At 31 March 2005			
Increase/(Decrease) in assets			
Property, plant and equipment	(6,903)	–	(6,903)
Land use rights	7,074	–	7,074
Increase in equity			
Retained profits	171	–	171
At 31 March 2006			
Increase/(Decrease) in assets			
Property, plant and equipment	(4,232)	–	(4,232)
Land use rights	4,426	–	4,426
Goodwill	–	91	91
Increase in equity			
Retained profits	<u>194</u>	<u>91</u>	<u>285</u>

- (g) **New Standards or interpretations that have been issued but are not yet effective**

The Group has not early adopted the following Standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts ²
HKFRS 7	Financial Instruments – Disclosures ¹
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease ²
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³

- 1 Effective for annual periods beginning on or after 1 January 2007.
- 2 Effective for annual periods beginning on or after 1 January 2006.
- 3 Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Basis of preparation**

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

(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.

(c) Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(d) Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all separate financial statements of subsidiaries and jointly controlled entities, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Goodwill

Goodwill arising on acquisition prior to 1 April 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1 April 2005 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is stated at gross amount less accumulated amortisation and impairment loss. Amortisation is provided on a straight line basis over its estimated useful life of ten years.

The Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually and whenever there is indication that the cash generating unit to which the goodwill relates becomes impaired.

Goodwill arising on acquisition on or after 1 April 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is on or after 1 April 2005 represents the excess of the cost of acquisition over the fair value of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

(f) Intangible assets (other from goodwill) and research and development activities

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3(h). Amortisation commences when the intangible assets are available for use.

All research and development costs are expensed as incurred.

(g) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight-line method, over their estimated useful lives as follows:

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(h) Impairment of assets

Goodwill, other intangible assets, property, plant and equipment and investments in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and 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.

(i) Financial assets

In previous years, the Group classified its investments in securities, other than subsidiaries, as investment securities which were stated in the balance sheet at cost less impairment losses. Impairment loss are made when the fair value of such securities had declined below the carrying amounts, unless there was evidence that the decline was temporary. Impairment loss were charged to the income statement.

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.

From 1 April 2005 onwards, the Group classifies its financial assets, into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised on their trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets that are either held for trading or are designated by the Group to be carried at fair value through profit or loss on initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse through profit or loss in subsequent periods.

(iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(j) *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.

(k) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and in the case of work in progress and finished goods, comprise direct materials and an appropriate portion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) *Cash and cash equivalents*

Cash and cash equivalents include cash at bank and in hand, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(m) Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

(n) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(o) Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the “PRC RB Plan”) operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan (“Employer contributions”). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the Employer contributions. Contributions under the PRC RB Plan are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(p) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to capital reserve. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profit.

(q) Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and finance leasing liabilities. They are included in balance sheet line items as borrowings under current or non-current liabilities and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

(s) Income and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discount and after eliminated sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised upon transfer of risk and rewards of ownership to the customer and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method. Where a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Operating expenses are recognised in the income statement upon utilisation of the services.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(u) Related parties

A party is considered to be related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company/Group that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;
- (b) the party is an associate of the Company/Group;
- (c) the party is a joint venture in which the Company/Group is a venturer;
- (d) the party is a member of the key management personnel of the Company/Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) to (d);
- (f) the party is an entity that is controlled, joint controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) to (e); or

- (g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

(v) Segment reporting

In accordance with the Group's internal financial reporting system, the Group has determined that business segment be presented as the primary reporting format and geographical segment as secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude available-for-sale investment and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(w) Operating leases

- (i) 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.
- (ii) Land use rights are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

4. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into four main business segments:

- (i) Pharmaceutical products – Manufacturing and sale of pharmaceutical products.
- (ii) Trading pharmaceutical products – Trading of pharmaceutical products.
- (iii) Health care products – Manufacturing and sale of health care products.
- (iv) Pharmaceutical bulk materials – Manufacturing of pharmaceutical bulk materials.

	Pharmaceutical products		Trading pharmaceutical products		Health care products		Pharmaceutical bulk materials		Inter-segment elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Revenue from external customers	119,386	109,712	42,869	60,658	8,030	8,856	-	-	-	-	170,285	179,226
Inter-segment revenue	4,814	6,578	-	-	-	-	-	-	(4,814)	(6,578)	-	-
Total	<u>124,200</u>	<u>116,290</u>	<u>42,869</u>	<u>60,658</u>	<u>8,030</u>	<u>8,856</u>	<u>-</u>	<u>-</u>	<u>(4,814)</u>	<u>(6,578)</u>	<u>170,285</u>	<u>179,226</u>
Segment results	23,632	30,096	7,784	19,179	336	1,624	(2,096)	-	(4,814)	(6,578)	24,842	44,321
Unallocated operating income and expenses											(1,466)	(789)
Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition											4,986	-
Profit from operations											28,362	43,532
Finance costs											(3,757)	(3,652)
Income tax											(1,594)	(5,673)
Profit for the year											<u>23,011</u>	<u>34,207</u>
Depreciation for the year	6,975	4,978	734	805	105	97	185	-	-	-	7,999	5,880
Amortisation of intangible assets	206	17	-	-	-	-	-	-	-	-	206	17
Annual charges of land use right	369	345	36	38	-	-	162	-	-	-	567	383
Reversal of impairment loss on property, plant and equipment	-	-	-	(804)	-	-	-	-	-	-	-	(804)
Segment assets	213,092	238,860	74,942	73,227	2,597	2,358	45,687	9,333	-	-	336,318	323,778
Unallocated assets											2,856	19,660
Total assets											<u>339,174</u>	<u>343,438</u>
Segment liabilities	21,684	17,442	13,966	12,681	239	318	-	-	-	-	35,889	30,441
Unallocated liabilities											62,621	89,690
Total liabilities											<u>98,510</u>	<u>120,131</u>
Capital expenditure incurred during the year	9,315	24,355	540	998	212	558	35,645	-	-	-	45,712	25,911

Secondary reporting format – Geographical segments

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

5. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Interest income	362	488
Gain/(Loss) on disposal of property, plant and equipment	1,707	(84)
Gain on disposal of land use rights	775	—
Net income from insurance claims	16	227
Net exchange gain/(loss)	843	(66)
Others	93	204
	<u>3,796</u>	<u>769</u>

6. PROFIT BEFORE INCOME TAX

	2006 HK\$'000	2005 HK\$'000 (Restated)
Profit before income tax is arrived at after charging/(crediting):		
Costs of inventories sold (i)	94,850	84,440
Auditors' remuneration	350	390
Depreciation	7,999	5,880
Amortisation of goodwill	—	38
Amortisation of intangible assets	206	17
Annual charges on land use right	567	383
Reversal of impairment loss on property, plant and equipment	—	(804)
Operating lease charges in respect of premises	2,853	2,472
Research and development costs (ii)	2,010	2,285
Write off of property, plant and equipment	<u>342</u>	<u>—</u>

Notes:

- (i) Cost of inventories includes HK\$7,778,000 (2005: HK\$5,618,000) 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) Research and development costs comprise staff costs of HK\$165,000 (2005: HK\$22,000).

7. INCOME TAX

- (a) Income tax in the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Current tax – provision for Hong Kong profits tax		
Tax for the year	972	4,760
Over provision in respect of prior years	(117)	(18)
	<u>855</u>	<u>4,742</u>
Current tax – outside Hong Kong		
Provision for PRC income tax	2,147	1,688
Tax refund	(1,481)	(1,022)
	<u>666</u>	<u>666</u>
Deferred tax		
Current year	73	265
	<u>1,594</u>	<u>5,673</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit 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.

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

	2006 HK\$'000	2005 HK\$'000 (Restated)
Profit before income tax	24,605	39,880
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	2,794	5,662
Tax effect of non-deductible expenses	858	151
Tax effect of non-taxable revenue	(1,326)	(169)
Tax losses not recognised as deferred tax assets	628	866
Tax effect of temporary differences not recognised	(6)	(77)
Tax refund	(1,481)	(1,022)
Others	244	280
Over provision in prior years	(117)	(18)
Actual tax expense	<u>1,594</u>	<u>5,673</u>

8. DIVIDENDS

(a) Dividends attributable to the year

	2006 HK\$'000	2005 HK\$'000
Final dividend proposed after the balance sheet date of HK\$0.01 per share (2005: HK\$0.015 per share)	<u>5,000</u>	<u>7,500</u>

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

	2006 HK\$'000	2005 HK\$'000
Final dividend in respect of the previous financial year approved and paid during the year of HK\$0.015 per share (2005: HK\$0.013 per share)	<u>7,500</u>	<u>6,500</u>

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$19,459,000 (2005 (Restated): HK\$29,568,000) and on 500,000,000 (2005: 500,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

No diluted earnings per share has been presented as there were no potential ordinary shares existed during the year since the market value of the shares of the Company during the year were lower than the conversion prices of the share options during the year. The calculation of diluted earnings per share for 2005 was based on the profit attributable to equity holders of the Company of HK\$29,568,000 and on the weighted average of 500,221,383 ordinary shares in issue during last year, after adjusting the effect of all dilutive potential shares under the Company's share option scheme.

RESULTS SUMMARY AND FINAL DIVIDEND

During the Period, turnover of the Group amounted to approximately HK\$170.3 million, representing a decrease of approximately 5% compared to that of the previous year. Compared with the previous year, profit attributable to equity holders decreased by approximately 34.2%, to approximately HK\$19.5 million. The main reason for the decrease in profit was due to the PRC State imposed price cut on antibiotics, which suppressed the Group's overall gross profit, increase administrative and operating expenses in line with the Group's development projects also had an effect on the net profit, as well as a decline in sales of one of the Group's main product due to both external and internal factors. New drugs launched by the group in 2005 were at their promotion stage in the market and though their margins were higher, they could not offset the overall decrease in profit yet. The Jiangsu pharmaceutical bulk materials plant is still undergoing modifications and as a result, could not contribute to the Group's profit yet.

Despite the decrease in profit for the Period, the Board shall adhere to its dividend payout ratio of at least 25%. A final dividend of HK\$0.01 per share of the Company is proposed to be paid to the shareholders whose names appear on the register of members of the Company on 28 August 2006. The dividend will be payable on 15 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Product sales

The Group sold approximately 31 types of drugs during the Period. These drugs belong mainly to the anti-infectious, musculo-skeletal and gastro-intestinal categories of drugs, which accounted for about 41.4%, 32.7% and 19.4% of the total sales, respectively; these products were mainly produced and sold by the Group's production corporation in Kunming, PRC ("Pharmaceutical Products"). Five new special products were imported into China via agency agreements between the Group and major European pharmaceutical corporations ("Trading Pharmaceutical Products"). In addition, the Group produced about twelve kinds of Chinese healthcare products ("Health Care Products"); the sales of which was about 4.7% of the Group's total revenue. The pharmaceutical bulk materials plant in Jiangsu is expected to start production ("Pharmaceutical Bulk Materials") in the first quarter of 2007 and would then contribute to the profit of the Group.

Pharmaceutical products

In September 2005, the National Development and Reform Commission ("NDRC") in the PRC imposed new price reductions on 22 kinds of drugs, which involved the specifications of more than 400 dosages, and the price reductions were as high as 40%, reflecting the largest reduction ever imposed in history. Despite such price pressures in the market, the Group's sale of antibiotics decreased only 3.3% in comparison with last year. However, the price effect on gross profit margins of antibiotics had caused segment results of Pharmaceutical Products to fall to approximately HK\$18.8 million, or approximately 20% less than that of the same Period last year.

In contrast to the slight decline in the sale of anti-infectious category, the Group achieved satisfactory growth of 16.5%, 239.1% and 98% respectively in the sale of musculo-skeletal, gastro-intestinal and other curative drugs within the Pharmaceutical Products segment. This reflects the Group's success in gradually adjusting the sales mix in favour of new prescription drugs.

Trading pharmaceutical products

Turnover of Trading Pharmaceutical Products amounted to approximately HK\$42.9 million, representing a decrease of approximately 29.3% as compared to the previous year. The Group recorded a segment result of approximately HK\$7.8 million, representing a decrease of approximately 59.4%, as compared to the previous year.

These declines were caused by intense market competition on pricing of one of the main products of the Group but more importantly, the delay in supply to customers during October 2005 to February 2006 as a result of the relocation of the production base. Although supply is now back to normal, the impact of these factors had affected the performance of the trading segment during the Period despite a backdrop of rising sales in other products within the segment.

Health care products

Turnover of Chinese healthcare products amounted to approximately HK\$8 million, representing a decrease of approximately 9.3% over last year. Management maintain a cautious attitude towards the development of the healthcare product market, and controlled the extent of capital investment in this segment. The Group shall continue the registration of products in Hong Kong for launch at the right time. The Group's marketing strategy would focus on the traditional retail market in Hong Kong, where a new round of advertising campaigns would be launched.

Pharmaceutical bulk materials

During the Period, the Jiangsu pharmaceutical bulk materials plant is still undergoing modifications but production is scheduled in the next financial period. Expenditures related to this segment was approximately HK\$2.1 million for the Period.

Operating profit

Operating profit for the Group this year was approximately HK\$28.4 million, reflecting a decrease by approximately 34.8% in comparison with last year. Apart from the above factors, the decline in sales performance was also attributed by the slow progress of the promotion of new drugs. This decline occurred because during the Period, the relevant authorities of the PRC government performed large-scale anti-graft investigations of the hospital system, thus grounding almost to a halt the hospitals' normal purchase approval procedure of new drugs and medical instruments. The Group believes that a strong anti-graft policy is conducive to healthy competition in the prescription drugs market, and actually promotes the long-term development of the industry. On the other hand, the Group launched four new products this year, some of which had not yet been included in the National Medical Reimbursement List, thus affecting the sales volume of these products. The Group believes that through intense promotion and education of the new products and via more clinical trials and safety studies being published, these new products will be included in the National Medical Reimbursement List in the next review of listings. As for operating costs, the modification project of the Jiangsu pharmaceutical bulk materials plant entailed purchases of new machineries and increased staff costs, thus increasing administrative and other operating expenses of the Group by 16.8% and 49.4%, respectively, compared to the same Period last year.

The Group believes that following the scheduled production in 2007 of the pharmaceutical bulk materials plant, it will contribute to the revenue of the Group in the first quarter of 2007. New products launched in 2005 and those scheduled to be launched in the second half of 2006 would generally start to contribute to the Group's profits after a market promotion period of 12 to 18 months. Moreover, the supply of one of the main products in the trading segment is back to normal in February 2006 and it is predicted that their sales shall improve accordingly.

Profit attributable to equity holders

During the Period, the profit attributable to equity holders amounted to approximately HK\$19.5 million, reflecting a decrease by 34.2% when compared with that of the previous year. Finance costs were about HK\$3.8 million, reflecting a slight increase of 2.9% when compared with that of the previous year. Fresh bank borrowing was primarily for the modification project in respect of the pharmaceutical bulk materials plant.

Share Transfer and Acquisition of the Year

Merger of two subsidiaries – Yunnan Jiwa Pharm-Tech Co. Ltd and Kunming Jida Pharmaceutical Co., Ltd

Pursuant to a share transfer agreement entered on 20 December 2004 between Jiwa Pharmaceuticals Limited ("JPL"), a wholly owned subsidiary of the Company, and Kunming Jida Pharmaceutical Co., Ltd. ("KJP"), a 70% owned subsidiary of the Company, JPL has disposed 100% interest in Yunnan Jiwa Pharm-Tech Co. Ltd ("YJPT"), another wholly owned subsidiary of the Group, to KJP for a consideration of approximately RMB17.9 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 were received from KJP on 20 April 2005, the date of completion of the transaction.

Pursuant to the disposal of all the equity interest in YJPT from JPL to KJP, YJPT became a wholly owned subsidiary of KJP and accordingly a 70% subsidiary of the Group. YJPT and KJP then applied to the Yunnan Administration for Industry and Commerce (“YAIC”) for merger. The application was approved by YAIC on 30 May 2006 and a new business licence has been issued for the merged company. The purpose of this group restructuring is to further improve operating efficiencies via the consolidation of plant management personnel.

Investment in a pharmaceutical bulk materials company, Jiangsu Jiwa Rintech Pharmaceutical Company Limited

On 25 May 2005, the Group’s subsidiary, Jiwa Rintech Holdings Limited (“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) or 80% of the capital of Jiangsu Jiwa Rintech Pharmaceutical Company Limited (“JJRP”). On 3 September 2005, the Company announced the acquisition of the remaining 20% of the equity interests of JJRP held by the three independent parties at a total consideration of RMB6 million (or approximately HK\$5.8 million). JJRP has since become the wholly-owned subsidiary of Jiwa Rintech. It is the long-term integration strategy of the Group to establish a pharmaceutical bulk materials plant in Jiangsu to supply global and domestic markets, and to meet part of the Group’s raw material needs in its own production of pharmaceutical products. This acquisition results in an excess of the Group’s interest in the net fair value of acquiree’s identifiable assets and liabilities over cost of acquisition of approximately HK\$5 million to the Group.

Termination of acquiring share interest 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). On 1 June 2006, the Group received a letter from YPML, confirming its termination of the process of registration of the Share Transfer with the Yunnan Administration for Industry and Commerce (YAIC). The termination was due to the fact that one of the existing shareholders of YPML refused to approve the registration of the Share Transfer with YAIC. This refusal caused a delay in completion in excess of nine months from the date of signing of the Share Transfer Agreement, which in accordance with the Share Transfer Agreement would render the Share Transfer Agreement null and void. As payment of RMB5.3 million in respect of the Share Transfer was only dependent on obtaining the relevant approvals from the relevant PRC authorities, this termination of the Share Transfer process did not involve the recovery of any deposits paid by the Company, and thus caused no financial impact or any other adverse impact on the Company.

Prospects

In view of the undergoing reforms within the PRC pharmaceutical industry, State’s policy changes and changes in the industry’s landscape, the Group would continue to implement the development strategies determined by the Board, which entails the development of drugs in five therapeutic areas (anti-infectious, gastro-intestinal, musculo-skeletal, cerebro-cardiovascular, anti-depressants and psychiatric disorder), the export of pharmaceutical bulk materials to European and American markets, and the pursuit of a cautious acquisition strategy.

Impetus for increase in profit

Intensive promotion of new drugs

The Company has successfully launched four new products during the year, namely Artrodar (Diacerein Capsules), Shi Si Tai (Somatostatin for Injection), Huo Duo Shi (Low Molecular Weight Heparin) and Jida Bente (Tamsulosin Hydrochloride).

Artrodar is developed by the Swiss company TRB CHEMEDICA (TRB), who holds a worldwide patent on the product. Artrodar falls under a new category of drugs called Symptomatic Slow Acting Drugs in Osteoarthritis (SYSADOA), which treats degenerative joint disease. A multi-center, double-blind, three-year study in France has proven the drug's positive effect on joint structure modification. This renders Artrodar as one of the world's most promising compounds in actually curing osteoarthritis, instead of just being a painkiller, as are most currently available products. The Group assisted TRB after four years of effort in registration and clinical trials in the PRC to finally obtain a PRC import drug license for Artrodar. The Group is currently the sole agent in China for Artrodar. The market is optimistic towards its prospects.

Shi Si Tai is a Somatostatin for treating a variety of neoplasms, as well as gigantism and acromegaly, due to its ability to inhibit growth hormone secretion. In cooperation with China Medical Science Academy, the Group has developed a state-of-the-art solid phase synthesis production method for this product.

Huo Duo Shi is a Low Molecular Weight Heparin that demonstrates a greater antithrombotic effect relative to its anticoagulant activity when compared with unfractionated heparin. Moreover, subcutaneous injection has a greater bioavailability and longer half-life than heparin, permitting once daily administration for prophylaxis treatment of deep venous thrombosis (DVT) or the treatment of established vascular disorders, including phlebopathies and related syndromes, as well as peripheral arterial occlusive disease. Huo Duo Shi also showed benefits as an adjunctive therapy in patients with angina pectoris. Huo Duo Shi is in prefilled-syringe dosage form, which not only make it easier to use for out-patients but also ensures the best product quality.

Jida Bente's generic name is tamsulosin hydrochloride, it is mainly used to cure symptoms of urinary retention caused by prostate enlargement. The curative effects of the product are long-lasting. The product can completely improve urinary retention problems and, as it has less harmful reactions, is suitable for long-term prescription. Its market prospects are good.

The Group has implemented strategic deployment of these new drugs, including the expansion of the new drug promotion department, the employment of a large number of product specialists, offering training to improve the service quality of the staff, and intensify the promotion work for each market terminals. Management believes that the additional value of a product is not only reflected in its quality, it also requires good communication to bring forth the value to the customers; as a result, the Group shall hold several new product launch conferences, and shall actively take part in a variety of marketing promotional activities.

Accelerate the development progress of preparation and pharmaceutical bulk materials

The Group has 17 products in the research and development (R&D) stage, six of which have entered the stage of declaration of production. These new products are mainly the musculo-skeletal, cerebro-cardiovascular specialised drugs and for the first time, the Group will also manufacture a drug focusing on the specific area of depression. It is expected that the production of the product shall be approved in 2006~2007. Combining imitation and innovation, these new specialised pharmaceutical products have further provided room for sales growth of drugs in different preparations and for the sales of pharmaceutical bulk materials. While promoting sales in the local market, the European and American markets are being actively explored.

For preparation, R&D mainly focuses on drugs of the anti-infectious, musculo-skeletal, gastro-intestinal, cerebro-cardiovascular, anti-depression and psychiatric disorders drugs, with the development of high-technological requirements. As preparation techniques in China are maturing, the Company shall establish 2 to 3 distinguished preparation platforms, including relieving preparation, nasal spray, targeting preparation, and so on, and shall apply for patents for the preparations. In the first quarter of 2006, the Group achieved a breakthrough in the development of patented products. The application for the citalopram chewing tablet patent was successfully accepted by State Intellectual Property Office. The Group was the first to have developed this preparation and it shall be the first product of the Group with intellectual property right fully possessed by the Group. The product symbolises that the Group's research techniques on specialised pharmaceutical products have taken a great step.

Regarding pharmaceutical bulk materials, because patents on several of the world's powerful drugs are successively expiring, as well as the pressure of high medical costs, the market growth rate of several generic drugs has been very high in recent years. Correspondingly, the supply of their pharmaceutical bulk materials is becoming more important. To the Group, the core competitiveness of pharmaceutical bulk material products is the technical level, which determines the cost and quality of a product. Focusing on the Group's gradual increase of R&D involvement in foreign non-patent pharmaceutical bulk materials from 2006, the Group shall continue taking over several pharmaceutical bulk materials which shall expire on time, and supply these to the international market. Moreover, the Group shall develop specialised pharmaceutical bulk materials for its own use and to meet the demands of the domestic medical market.

The strive for production of pharmaceutical bulk materials in 2007

During the Period, the progress of the pharmaceutical bulk materials plant went smoothly, and the reconstruction project of the plant was accelerated. The plant is expected to be completed in several phases within the year 2006. The DMF work of the products to be exported has already started, and expected to be submitted to Food and Drug Administration (FDA) in 2006. Management believes that the pharmaceutical bulk materials factory shall begin production of chemical pharmaceutical bulk materials in the first quarter of 2007 and bring more income to the Group.

Strengthening internal control, and effective and efficient use of resources

With the business and regional expansion of the Group, Management has implemented Enterprise Resource Planning (ERP) and formulated internal monitoring measures. Among these, since ERP is one of the technical reconstruction items of the Yunnan Province, it has acquired relevant support from the Finance Bureau and Economic and Trade Commission of Yunnan Province, which in turn, offers subsidies and allowances to the Group.

The implementation of the above items can effectively strengthen internal control, increase the immediacy of product supply, reduce costs related to stock shortages and excessive inventory, conduct performance assessments and decision-making functions of the enterprise through the capturing and analysis of business information, and strengthen the management of procedures and co-sharing of information. The execution of ERP and the internal monitoring system can effectively strengthen the Group's use and management of resources, to promote efficiency and further increase profit.

ANNUAL GENERAL MEETING

The 2006 Annual General Meeting of the Company will be held on Monday, 28 August 2006 and the Notice of Annual General Meeting will be published and dispatch in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22 August 2006 to Monday, 28 August 2006, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 21 August 2006.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity

As at 31 March 2006, cash and cash equivalents of the Group totalled approximately HK\$27.7 million (2005: approximately HK\$56.7 million), of which approximately 13.8% are in Hong Kong dollars, 33.8% in RMB, 41.7% in US dollars, 10.5% in Euro and 0.2% in Macau Pataca. The decrease in cash and cash equivalents over last year is mainly a result of early repayments of bank loans during the year to contain finance costs; which remained relatively unchanged compared to the same period last year despite an increase in non-current assets and rising interest rates.

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 investment in ERP system in 2006) and partly to reserve funds for general working capital.

As at 31 March 2006, the Group had aggregate banking facilities of approximately HK\$158.1 million (2005: approximately HK\$173.2 million) of which approximately HK\$73.0 million was utilized (2005: approximately HK\$96.3 million) as to approximately HK\$16.9 million in long term bank loans, as to approximately HK\$47.8 million in short term bank loans, as to approximately HK\$6.7 million in letters of guarantee and as to the balance of approximately HK\$1.6 million in Letter of credit issued by the relevant banks to independent third parties. The Group's aggregate banking facilities of approximately HK\$158.1 million include approximately HK\$113.6 million equivalents in RMB denominated banking facilities. The utilized banking facilities of approximately HK\$73.0 million includes approximately HK\$55.3 million equivalent in RMB denominated bank borrowings.

Interest rate risk

The Group's bank borrowings are mainly denominated in RMB (refer to above) and RMB interest rates are the lowest during the period among the Group's functional currencies in RMB, Hong Kong dollars and US dollars.

As at 31 March 2006, the gearing ratio was approximately 19.1% (2005: approximately 26.1%), calculated based on the Group's total bank borrowings of approximately HK\$64.7 million (2005: approximately HK\$89.6 million) over the Group's total assets of approximately HK\$339.2 million (2005 (Restated): approximately HK\$343.4 million). The decrease in gearing ratio reflects the Group's efforts in containing finance costs in a rising interest rate environment.

Foreign currency risk

The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 31 March 2006 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.

Credit risk

The Group has a pragmatic approach towards credit risk management. New customers are usually not allowed on credit and the payment conduct of clients are monitored both to facilitate the determination of credit limit as well as a control over whether new sale deliveries should be made. The Group's sale staff and marketing agents pay regular visits to customers to promote the Group's products and at the same time would update information on the clients' credit worthiness. The remuneration of sales staff and marketing agents are structured so that there is a goal congruence in maintaining a robust credit risk management system.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Contracted for		
– acquisition of technical know-how	<u>990</u>	<u>1,226</u>
	<u>990</u>	<u>1,226</u>
Authorised but not contracted for		
– acquisition of property, plant and equipment	<u>6,885</u>	<u>5,817</u>
	<u>7,875</u>	<u>7,043</u>

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

CHARGE ON GROUP ASSETS

As at 31 March 2006, bank loans amounting to approximately HK\$55.3 million (31 March 2005: nil) were secured by certain assets of the Group having a net book value of approximately HK\$58.1 million.

CONTINGENT LIABILITIES

As at 31 March 2006, 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 2006, the Group had approximately 460 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.

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors is of the opinion that during the financial year ended 31 March 2006 (the “Period”), the Company had applied the “Code on Corporate Governance Practices” (the “CG Code”) as set out in Appendix 14 of the Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), save for deviations from Code Provisions A.4.2. as mentioned below. During the Period, steps were taken to amend or repeal the bye-laws of the Company in respect of the service term and rotation of directors under Code Provision A.4.2. with a view to ensuring full compliance with the requirements of the CG Code. Resolutions of amendments of the relevant bye-laws of the Company were passed at the Company’s Annual General Meeting held on 8 August 2005.

Pursuant to Code Provision A.4.2., every director, including those appointed for a specific term, should be subject to retirement by rotation at least every three years. Accordingly, the Bye-laws was amended to specify that notwithstanding any other provisions in the Bye-laws of the Company, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than, instead of not greater than, one-third) shall retire from office by rotation. As a result of the said proposed amendment, every Director is subject to retirement by rotation at least once every three years.

Code Provision A.4.2. also provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Accordingly, the Bye-laws was amended to specify that any Director appointed to fill a casual vacancy shall hold office until the next following general meeting, instead of the next following annual general meeting.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 March 2006.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 March 2006.

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 March 2006 have been agreed by the Group’s auditors, Grant Thornton, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Grant Thornton in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Grant Thornton on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the website of the Stock Exchange. The annual report of the Company containing all information required by Appendix 16 of the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express my gratitude to our shareholders and business associates for their continued support, and extend my sincere appreciation to all management and staff members of the Group for their ongoing dedication, commitments and contributions throughout the Period.

By order of the Board

Lau Kin Tung

Vice Chairman and Chief Executive Officer

Hong Kong, 12 July 2006

As at the date of this announcement, members of the Board comprise three Executive Directors, namely Mr. Lau Yau Bor, Mr. Lau Kin Tung and Madam Chan Hing Ming and three Independent Non-Executive Directors namely Mr. Choy Ping Sheung, Mr. Fung Tze Wa and Mr. Seet Lip Chai.

* *For identification only*

“Please also refer to the published version of this announcement in China Daily”