



# 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 2004

The directors (the "Directors") of Jiwa Bio-Pharm Holdings Limited (the "Company") are pleased to present the first audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2004 (the "Period") together with the comparative figures for the corresponding period in 2003, as follows:

#### CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 March	
		2004 HK\$'000	2003 HK\$'000
Turnover	3	202,950	188,762
Cost of sales		(95,638)	(97,338)
Gross profit		107,312	91,424
Other revenue		387	178
Other net (loss)/income		(98)	97
Selling expenses		(24,521)	(23,953)
Administrative expenses		(22,414)	(21,054)
Other operating expenses		(1,811)	(1,417)
Profit from operations		58,855	45,275
Finance costs		(1,273)	(1,600)
Profit from ordinary activities before taxation	4	57,582	43,675
Taxation	5	(5,054)	(3,930)
Profit from ordinary activities after taxation		52,528	39,745
Minority interests		(11,509)	(8,932)
Profit attributable to shareholders		41,019	30,813
Dividends attributable to the year:			
Final dividend proposed after the balance sheet date	6	6,500	16,000
Earnings per share			
Basic	7	9.80 cents	8.80 cents
Diluted	7	9.80 cents	N/A

# Jiwa Bio-Pharm Holdings Limited

Notes:

## 1. Reorganisation

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) as part of the reorganisation (the "Reorganisation") of the Group in preparation for the listing of the shares ("Shares") of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Pursuant to the Reorganisation, the Company became the holding company of the Group on 24 September 2003. The Company was listed on the Main Board of The Stock Exchange on 14 October 2003.

## 2. Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the periods presented, rather than from 24 September 2003. Accordingly, the consolidated results of the Group for the years ended 31 March 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is the shorter period. The consolidated balance sheet at 31 March 2003 is a combination of the balance sheets of the Company and its subsidiaries at 31 March 2003. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the Directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole. Further details of the Reorganisation are set out in the prospectus of the Company dated 30 September 2003 ("the Prospectus").

## 3. Turnover and segment information

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 return and discounts.

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.

- Pharmaceutical products (manufacturing and sale of pharmaceutical products).
- Trading (trading of pharmaceutical products).
- Health care products (manufacturing and sale of health care products)

	Pharmaceutical products		Trading		Health care products		Inter-segment elimination		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Revenue from external customers	146,336	128,361	48,093	51,286	8,521	9,115	-	-	202,950	188,762
Inter-segment revenue	4,702	4,831	-	-	-	-	4,702	4,831	-	-
<b>Total</b>	<b>151,038</b>	<b>133,192</b>	<b>48,093</b>	<b>51,286</b>	<b>8,521</b>	<b>9,115</b>	<b>4,702</b>	<b>4,831</b>	<b>202,950</b>	<b>188,762</b>
Segment results	43,429	28,642	18,123	20,459	2,299	1,109	4,702	4,831	59,149	45,379
Unallocated operating income and expenses									(294)	(104)
Profit from operations									58,855	45,275
Finance costs									(1,273)	(1,600)
Taxation									(5,054)	(3,930)
Minority interests									(11,509)	(8,932)
Profit attributable to shareholders									41,019	30,813
Depreciation for the year	3,366	2,863	428	341	19	10	-	-	3,813	3,214
Impairment loss for the year	-	-	-	804	-	-	-	-	-	804
Segment assets	182,623	91,737	44,939	34,376	1,151	5,619	-	-	228,713	131,732
Unallocated assets									98,721	50,229
<b>Total assets</b>									<b>327,434</b>	<b>181,961</b>
Segment liabilities	17,478	28,266	9,131	9,767	399	1,192	-	-	27,008	39,225
Unallocated liabilities									99,136	37,364
<b>Total liabilities</b>									<b>126,144</b>	<b>76,589</b>
Capital expenditure incurred during the year	87,127	6,081	501	13,107	-	78	-	-	87,628	19,266

The Group operates predominantly in the People's Republic of China ("PRC"). Accordingly, geographical segment information is not presented.

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## 4. Profit from ordinary activities before taxation

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

	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	3,286	1,709
Less: Borrowing costs capitalised into construction in progress	<u>(2,013)</u>	<u>(109)</u>
	<u>1,273</u>	<u>1,600</u>
Annual capitalisation rate of borrowing costs	<u>5.0%</u>	<u>4.8%</u>
(b) Staff costs:		
Salaries, wages and other benefits	14,989	10,211
Contributions to defined contribution plans	<u>947</u>	<u>724</u>
	<u>15,936</u>	<u>10,935</u>
<i>Note:</i> Staff costs include operating lease charges in respect of premises totalling \$809,959 (2003: \$640,000) which are also included in total operating lease charges in respect of premises disclosed in Note 4(c) below.		
(c) Other items:		
Costs of inventories ( <i>Note (i)</i> )	93,620	95,547
Auditors' remuneration – audit services	855	200
Depreciation	3,813	3,214
Impairment loss on fixed assets	–	804
Operating lease charges in respect of premises		
– minimum lease payments	1,806	1,897
– contingent rental	134	–
Management fees ( <i>Note (ii)</i> )	–	2,500
Research and development costs ( <i>Note (iii)</i> )	1,715	1,502
Write back of provision for bad and doubtful debts	<u>(532)</u>	<u>(447)</u>

*Notes:*

- (i) Cost of inventories includes \$4,807,000 (2003: \$4,493,000) 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) Management fees comprise staff costs of \$Nil (2003: \$706,010) which are also included in the total amount of staff costs disclosed above.
- (iii) Research and development costs comprise staff costs of \$289,000 (2003: \$654,000) which are also included in the total amount of staff costs disclosed above.

## 5. Taxation

Taxation in the consolidated income statement represents:

	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	4,401	2,848
(Over)/under-provision in respect of prior years	<u>(5)</u>	<u>49</u>
	<u>4,396</u>	<u>2,897</u>
Current tax – Outside Hong Kong		
Provision for PRC income tax	2,829	2,044
Tax refund	<u>(2,649)</u>	<u>(1,338)</u>
	<u>180</u>	<u>706</u>
Deferred tax		
Origination and reversal of temporary differences	478	327
	<u>5,054</u>	<u>3,930</u>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. The increase is taken into account in the preparation of the Group's financial statements for the year ended 31 March 2004. Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 March 2004 is calculated at 17.5% (2003: 16%) of the estimated assessable profits for the year.

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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 Kunming Jida Pharmaceutical Company Limited ("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 respectively.

Pursuant to notices issued by the local tax bureau, PRC income tax of Rmb2,808,112 (2003: Rmb1,418,182) was refunded to KJP in relation to the reinvestment of profits and purchase of equipment produced in the PRC for technological improvement in accordance with the relevant tax rules and regulations.

Tax refund is credited to the income statement as a reduction in the tax charge for the year when the tax refund is approved. There is no assurance that the Group will receive such tax refund in the future.

## 6. Dividends

- (a) Dividends attributable to the year

	2004 HK\$'000	2003 HK\$'000
Final dividend proposed after the balance sheet date of HK\$0.013 per share	<u>6,500</u>	<u>16,000</u>

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

The dividend per share and the number of shares ranking for dividend for the year ended 31 March 2003 are not presented above as such information is not meaningful having regard to the consolidated financial statements.

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

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year	<u>16,000</u>	<u>8,000</u>

Prior to listing, on 20 September 2002 and 14 July 2003, certain subsidiaries of the Group declared and approved final dividends of \$8,000,000 and \$16,000,000 in respect of the years ended 31 March 2002 and 2003 respectively to the then shareholders of these subsidiaries.

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

## 7. Earnings per share

- (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2004 is based on the profit attributable to shareholders of the Company of HK\$41,019,000 and the weighted average of 418,750,000 ordinary Shares in issue during the year. The calculation of basic earnings per share for the year ended 31 March 2003 was based on the profit attributable to shareholders of the Company of HK\$30,813,000 and on the 350,000,000 ordinary Shares of the Company outstanding after the Group's Reorganisation and capitalisation issue (as defined in Appendix V to the Prospectus).

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholder of the Company of HK\$41,019,000 and the weighted average of 418,751,543 ordinary Shares after adjusting the effect of all dilutive potential Shares under the Company's Share option scheme. There were no potential dilutive ordinary Shares in issue during the year ended 31 March 2003.

- (c) Reconciliation

	2004 Number of Shares	2003 Number of Shares
Weighted average number of ordinary Shares used in calculating basic earnings per share	418,750,000	-
Deemed issue of ordinary Shares for no Consideration	<u>1,543</u>	<u>-</u>
Weighted average number of ordinary Shares used in calculating diluted earnings per share	<u>418,751,543</u>	<u>-</u>

**8. Change in accounting policies**

The accounting policies adopted by the Group have been consistently applied except for the adoption of the revised SSAP12 "Income taxes", which is effective for accounting periods commencing on or after 1 January 2003. There is no effect on the Group's net profit and net assets for the years presented as a result of the adoption of this revised standard.

**DIVIDENDS**

No interim dividend was declared by the Company during the year ended 31 March 2004. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 23 September 2004, the payment of a final dividend for the year ended 31 March 2004 of HK 1.3 cents per share in cash to be paid on or about 30 September 2004 to the shareholders of the Company whose names appear on the register of members of the Company on 23 September 2004.

Having regard to the Group's imminent completion of the new production facilities in the PRC, the Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ending 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 15 September 2004 to 23 September 2004, 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 23 September 2004, 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 14 September 2004.

**MANAGEMENT DISCUSSION AND ANALYSIS**

**STRATEGY AND MARKET**

**Strategy**

The Group's core business strategy is to be among the first to launch new pharmaceutical products in the PRC, either by acting as exclusive agents for European product brands (trading segment) or in promoting self manufactured products (pharmaceutical products segment). Most of these products already have successful track records since their launch in developed countries by other pharmaceutical companies. The key advantage of introducing new products in the PRC is the enjoyment of a certain period of protection from market competition granted by the State Food and Drug Administration of the PRC ("SFDA") or via patent registration in the PRC. Critical success factors in implementing such a strategy include extensive research and development, versatile production capabilities, as well as a strong distribution network. The Group is strengthening its core competencies further in these areas.

Another area of business development that the Group would focus on is the distribution of health care products in Hong Kong. The year ended 31 March 2004 could be a watershed for traditional Chinese medicines ("TCM") in Hong Kong, following official announcements of regulatory controls over TCM. The Group's experience in product registration, quality control and production management in the PRC give it a clear competitive advantage in a regulatory environment for TCMs in Hong Kong, the regulatory framework of which would be based significantly on that of the PRC's. Plans are being made by the Group to register a range of TCMs in Hong Kong covering various therapeutic areas in the near future.

**Market**

Statistics from the China National Development and Reform Commission of the PRC indicated a 13.13% increase in pharmaceutical industrial revenues over the first 2 months of 2004 as compared with the corresponding period last year, while industrial value added increased 16.08% over the same period. The Group believes that a healthy growth rate in the PRC pharmaceutical market is sustainable for years to come.

On the other hand, the entry barrier to the PRC pharmaceutical market would become higher when SFDA begin the enforcement of GMP compliance for all pharmaceutical manufacturers from 1 July 2004, as well as the relevant PRC authorities intention to strengthen the legal framework for drug administration. In April 2003, the SFDA's responsibilities was expanded to cover prescription, non-prescription, vaccines, biologicals, medical devices, drug packaging, functional foods, dietary supplements and cosmetics. The Group is in a good position to benefit from these increased and more stringent controls in the PRC, with its experienced management team and GMP (as defined in the Prospectus) licences already in place.

The aging population and SARS in 2003 help to accelerate the growth of the TCM market in Hong Kong. With the advent of TCM registration regulations in Hong Kong on 19 December 2003, products failing quality controls will steadily be eliminated while consumer confidence towards TCMs will increase.

## BUSINESS PERFORMANCE CONDITIONS

### Business Review

The Period under review is both a period of consolidation as well as development for the Group. For the year ended 31 March 2004, the consolidated profit of the Group amounted to approximately HK\$41.0 million, representing an increase of approximately 33.1% over the previous year. Turnover for the Period was approximately HK\$203.0 million, representing an increase of approximately 7.5% over HK\$188.8 million for the year ended 31 March 2003. Earnings per share for the Period amounted to approximately HK9.8 cents, representing an increase of 11.4% over HK8.8 cents in 2003.

The business performance of the Group was affected in the first half of the Period by SARS, but recovered quickly when the epidemic abated in the third quarter. The significant increase in profit as compared with the rise in revenue was mainly the result of a change in sales mix in favor of higher margin products. During the Period, the Group placed a lot of effort not only to increase its distribution network but also to enhance the professional standard of its sales force. This results in both an absolute increase in sales revenue and also a more effective promotion on higher margin products. The Group's tight control over operating costs has also contributed to profits for the Group.

#### *Pharmaceutical products*

Pharmaceutical products account for the core of the Group's turnover, representing approximately 72.1% of the Group's turnover for the Period (2003: approximately 68.0%) which amounted to approximately HK\$146.3 million for the Period (2003: approximately HK\$128.4 million). The change represented an increase in turnover of approximately 13.9% as compared to the corresponding period in 2003. Segment results for pharmaceutical products also improved to approximately HK\$43.4 million (2003: approximately HK\$28.6 million), representing an increase of approximately 51.7% as compared to the corresponding period in 2003. The strong growth in turnover and results was primarily a result of an improved distribution network coverage in the PRC and a decline in certain raw material costs.

One of the Group's best selling products, Triamcinolone Acetonide for injection, was awarded the "Yunnan Famous Brand Award" by the Yunnan Technology and Quality Administration in December 2003.

The Group's quality control and research departments successfully obtained SFDA approvals to convert all product licences in the PRC from the provincial level to national level, as required by the SFDA. This also ensures that the production and distribution of the Group's products in the PRC comply fully with SFDA requirements. A new product, Reduced Glutathione Sodium for Injection, was successfully launched in July 2003 under the Group's brand name of '松泰斯'. Two of the Group's SFDA Medicine category 2 new drugs, namely Risedronate Sodium and Edaravone, obtained clinical permits in April 2003 and February 2004 respectively. Sucralfate gel suspension, Somatostatin and Buflomedil Phridoxal Phosphate were either undergoing or have finished clinical studies by the end of the Period.

A potential SFDA Medicine category 3 new drug Tamsulosin, which is the only sustained release tablet of its type in the PRC, was being developed during the Period, and had already finished its clinical phase in March 2004. Other ongoing projects include development of generics in antibiotics and corticosteroids.

These encouraging results would form the engine of strong growth for the Group in the coming years.

#### *Trading*

The turnover of traded pharmaceutical products for the Period amounted to approximately HK\$48.1 million (2003: approximately HK\$51.3 million); representing a decrease of approximately 6.2% as compared to the corresponding period in 2003. The turnover of traded pharmaceutical products accounted for approximately 23.7% of the Group's turnover for the Period (2003: approximately 27.2%). Segment results for traded pharmaceutical products declined to approximately HK\$18.1 million (2003: approximately HK\$20.5 million); representing a decrease of approximately 11.7% as compared to the corresponding period in 2003. Decrease in turnover was primarily a result of retail price cut by the China National Development and Reform Commission in January 2003. However, sales started to pick up in the second half of the Period after a series of marketing campaigns in the first half of the Period, which the Group believes is sustainable.

Artrodar, the worldwide patented osteoarthritis product, has finished its clinical trial in the PRC in November 2003, with very positive results. The Group is expecting an import drug license for Artrodar in the next few months, which would contribute significantly to the Group's profits in the future.

## *Health care products*

The turnover of the Group's health care products amounted to approximately HK\$8.5 million for the Period (2003: approximately HK\$9.1 million); representing a decline of approximately 6.6% as compared to the corresponding period in 2003. The turnover of health care products accounted for only approximately 4.2% of the Group's turnover for the Period (2003: approximately 4.8%). Segment results for health care products improved to approximately HK\$2.3 million (2003: approximately HK\$1.1 million). Turnover of health care products declined primarily as a result of SARS in Hong Kong during the Period and the improvement in segment results was primarily a result of tighter control over costs. Although performance of the Group's healthcare products segment had been satisfactory this year, the Group is confident that profit contribution from this segment will grow significantly in the coming future with the registration of new TCMs.

## **Research and development**

Research and development costs incurred by the Group increased from approximately HK\$1.9 million in 2003 to approximately HK\$3.6 million in the Period; of which approximately HK\$1.9 million (2003: approximately HK\$0.4 million) was capitalised as deposit for product development and approximately HK\$1.7 million (2003: approximately HK\$1.5 million) charged as pre-production testing expenses during the Period.

## **Acquisition of research and development entity**

The Group successfully acquired 雲南積華生物醫藥科技有限公司 (Yunnan Jiwa Pharm-Tech Co., Ltd) ('YJPT'), a research and development entity in the PRC, on 7 February 2004 at a cost of US\$800,000 or approximately HK\$6.2 million. The acquisition cost represents the entire paid-up registered capital of YJPT. This is a connected transaction which was announced by the Group on 23 December 2003. YJPT has started important groundwork on corticosteroid biosynthesis technology and chemical synthetic production which the Group believes would provide very encouraging development in the near future. The transaction would bring to the Group a new era of strong growth in raw material exportation, and extending the Group's vertical integration to raw material research and manufacturing.

## **Development of sales network**

With the appointment of a new marketing director of the Group's pharmaceutical products, new sales force were trained and assigned to cover cities previously untapped by the Group in the PRC. Agreements were signed with new distributors, and new marketing plans were devised to promote products with their production licences just converted to the national level during the financial year. These include TCMs on diabetes, male hepatic functions, cardiovascular disorders, as well as antibiotics.

## **Completion of new manufacturing plant**

The first phase of construction of a new manufacturing plant of the Group was completed during the Period. The site covers approximately 34,000 square meters of land, with approximately 38,000 square meters plant floor area, and a state-of-the-art design allowing 8 new production lines of different dosage forms, including pre-filled syringes, powder injectables, liquid injectables, oral formulations, peptide synthesis and lyophilized powder injectables. Construction work on the new manufacturing plant of the Group was started on 1 April 2003 and the plant would be ready to commence full operations during the next financial year.

## **PROSPECTS FOR THE YEAR 2005**

The Directors believe that 2005 would be a year of solid growth. The PRC pharmaceutical market is expected to enjoy double digit growth despite the State's actions to 'cool' the economy as a whole. Meanwhile, the Hong Kong economy is expected to continue to show improvement with an increasing health awareness in the general population.

For the pharmaceutical products segment, the Group expects to obtain new GMP certificates and to commence operations on six production lines. Production licence for Loratadine tablet was obtained in May 2004 and the production licence for Somatostatin for injection is expected to be obtained in December 2004. Meanwhile a series of TCMs and antibiotics with production licences were launched in June 2004. These would impact on the Group's sales mix further in favor of high margin products.

Sales force is planned to be doubled during 2005. The Group has planned to set up two new marketing divisions in the PRC, one for over-the-counter promotion, and the other to distribute in the suburban areas of the PRC. This development in marketing would definitely improve sales channel management and geographical coverage of the Group in the PRC.

As for traded products segment, the Group expects the present growth in sales would continue. Segment results would improve as the Group is confident that its application to increase its product retail price in the PRC would be granted by the relevant authorities shortly. Two important new products, Synthetic Salmon Calcitonin (for osteoporosis) (already launched in June 2004) and Artrodar (expected to launch in December 2004), are anticipated to further improve sales in this segment.

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Finally, health care products is an area where the Group has put in extra efforts over the previous years. The Group had submitted registration for more than 20 new TCMS with differing therapeutic actions in Hong Kong on or before 30 June 2004. The Group would appoint Hong Kong Standards and Testing Centre and Guangzhou Institute of Drug Control to perform chemical and toxicology studies on all its health care products.

The Directors believe that the current 'economy-cooling' policy in the PRC would present many acquisition opportunities for the Group. Acquisition targets would include biotechnology companies and TCM plants.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, cash and cash equivalents of the Group totaled approximately HK\$87.3 million (FY2003: approximately HK\$41.9 million), of which approximately 21% are in Hong Kong dollars, 75% in Renminbi ("RMB") and 4% in US dollars. The Group has for its hedging purposes a US\$1 million forward exchange contract banking facility in place as at 31 March 2004 and actively monitors its net foreign currency exposures. As the bulk of the Group's transactions and assets are denominated in Hong Kong 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 2004, the Group had aggregate banking facilities of approximately HK\$110.6 million of which approximately HK\$100.3 million was utilized (as to approximately HK\$74.6 million in long term bank loans, as to approximately HK\$19.3 million in short term bank loans and as to the balance of approximately HK\$6.4 million in letters of guarantee issued by the relevant banks to independent third parties). The Group's aggregate banking facilities of approximately HK\$110.6 million includes approximately HK\$89.6 million equivalent in RMB denominated banking facilities. The utilized banking facilities of approximately HK\$100.3 million includes approximately HK\$89.6 million equivalent in RMB denominated bank borrowings.

Interest rates applicable to the RMB denominated bank borrowings are renewable annually and are fixed at 4.779% per annum for RMB20.0 million, 5.49% per annum for RMB25.0 million and 4.941% per annum for RMB50.0 million as at the end of the Period.

As at 31 March 2004, the gearing ratio was approximately 28.7% (31 March 2003: approximately 19.7%), calculated based on the Group's total bank borrowings of approximately HK\$93.9 million (31 March 2003: approximately 35.8 million) over the Group's total assets of approximately HK\$327.4 million (31 March 2003: approximately HK\$182.0 million).

As at 31 March 2004, approximately HK\$21 million of the Group's banking facilities was secured by certain properties owned by the Group and a corporate guarantee of the Company for HK\$28.28 million. The secured banking facilities were utilized as to approximately HK\$10.7 million as at the end of the Period, of which approximately HK\$4.3 million was utilized in mortgage loan and approximately HK\$6.4 million utilized in letters of guarantee

### CHARGE OF ASSETS

As at 31 March 2004, certain of the Group's buildings with a net book value of approximately HK\$6.9 million were pledged to a bank to obtain credit facilities.

### CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted for		
– acquisition of fixed assets	16,791	13,021
– acquisition of technical know-how	1,402	3,340
	<u>18,193</u>	<u>16,361</u>
Authorised but not contracted for		
– acquisition of fixed assets	–	52,757
	<u>18,193</u>	<u>69,118</u>

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

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## **CONTINGENT LIABILITIES**

As at 31 March 2004, 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 2004, the Group had approximately 333 employees. Total salaries and related costs incurred for the year ended 31 March 2004 amounted to approximately HK\$15.9 million. 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 share options to eligible employees under its share option scheme.

## **SHARE OPTION SCHEME**

The Share option scheme 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 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 2004 was 50,000,000 Shares (including options for 9,266,000 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 2004. A summary of the principle terms of the Share option scheme was disclosed in Appendix V to the Prospectus of the Company dated 30 September 2003.

## **REORGANISATION**

During the Period under review, the Group has undergone the Reorganisation, details of which are disclosed in Appendix V to the Prospectus.

## **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.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company's shares were listed on the Stock Exchange on 14 October 2003. Since the Listing Date, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

In compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, the Board established an audit committee on 24 September 2003 and has adopted the terms of reference governing the authority and duties of the audit committee. The members of the audit committee of the Company comprise two independent non-executive Directors. The audit committee has reviewed with the management of the Company and external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited financial statements of the Group for the Period.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company was listed on the Stock Exchange on the Listing Date. None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the Listing Date.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

A detailed results announcement of the Group for the Period containing all information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

# Jiwa Bio-Pharm Holdings Limited

## **APPRECIATION**

On behalf of the board of Directors, I wish to thank our shareholders and business associates for their ongoing support and extend our appreciation to our management team and staff members for their contributions to our achievements during the year.

By Order of the Board of  
**Jiwa Bio-Pharm Holdings Limited**  
**Lau Kin Tung**  
*Vice Chairman and CEO*

Hong Kong, 6 July 2004

*As at the date of this announcement, the executive directors of the Company are Mr. Lau Yau Bor, Mr. Lau Kin Tung and Madam Chan Hing Ming and the independent non-executive directors of the Company are Mr. Choy Ping Sheung and Mr. Soo Ping Shu, Samuel.*

\* *For identification purposes only*

Please also refer to the published version of this announcement in China Daily dated 7 July 2004.