



Jiwa Bio-Pharm Holdings Limited

積華生物醫藥控股有限公司*

(incorporated in Bermuda with limited liability)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003

The directors (the "Directors") of Jiwa Bio-Pharm Holdings Limited (the "Company") are pleased to present the first unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2003 (the "Period") together with the comparative figures for the corresponding period in 2002, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED) OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2003

	Note	Six months ended 30 September	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	2	100,036	84,786
Cost of sales		(50,872)	(45,128)
Gross profit		49,164	39,658
Other revenue		789	47
Other net loss		(42)	(9)
Selling expenses		(14,622)	(8,361)
Administrative expenses		(9,808)	(8,920)
Other operating expenses		(595)	(435)
Profit from operations		24,886	21,980
Finance cost	3(a)	(493)	(880)
Profit from ordinary activities before taxation	3	24,393	21,100
Taxation	4	(2,468)	(1,403)
Profit from ordinary activities after taxation		21,925	19,697
Minority interests		(5,285)	(3,654)
Profit attributable to shareholders		16,640	16,043
Earnings per share – basic	6	4.75 cents	4.58 cents

Notes:-

1. Basis of preparation

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). Pursuant to the reorganisation (“Reorganisation”) of the group of companies including the Company in preparation for listing on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), the Company became the holding company of the Group on 24 September 2003.

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The financial statements have been prepared on the basis that the Company was the holding company of the Group throughout the six months ended 30 September 2002 and 2003, rather than from 24 September 2003. Accordingly, the consolidated results of the Group for the six months ended 30 September 2002 and 2003 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is a 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 interim financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

These interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by The Hong Kong Society of Accountants (the “HKSA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange. These interim financial statements reflect the unaudited financial position of the Group as at 30 September 2003 and the unaudited results of operations and cash flows of the Group for the six months period then ended, which are not necessarily indicative of the results of the operations and cash flows expected for the year ending 31 March 2004.

The interim financial statements have been authorised for issue by the board of Directors (the “Board”) on 19 December 2003. These interim financial statements are unaudited, but have been reviewed by the audit committee of the Company and by the Company’s auditors, KPMG, in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the HKSA.

The financial information relating to the financial year ended 31 March 2003 included in these interim financial statements does not constitute the Group’s statutory financial statements for the financial year but is derived from the Accountants’ Report (“Accountants’ Report”) included in the Company’s prospectus dated 30 September 2003 (the “Prospectus”). The financial information of the Group for the three years ended 31 March 2003 is contained in the Accountants’ Report. The Company’s auditors have expressed an unqualified opinion on such financial information in their Accountants’ Report dated 30 September 2003.

The accounting policies adopted in the Accountants’ Report have been consistently applied by the Group in preparing these interim financial statements except for the adoption of the revised SSAP 12 “Income taxes”, which is effective for accounting periods commencing on or after 1 January 2003. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

2. Segment reporting

An analysis of the Group’s revenue and results by business segments is as follows:

	Six months ended 30 September	
	2003 <i>HK\$’000</i> <i>(Unaudited)</i>	2002 <i>HK\$’000</i> <i>(Unaudited)</i>
Revenue:		
– Pharmaceutical products	72,095	60,175
– Trading	24,180	19,861
– Health care products	3,761	4,750
	<u>100,036</u>	<u>84,786</u>
Segment results:		
– Pharmaceutical products	15,453	11,400
– Trading	8,489	10,593
– Health care products	226	39
	<u>24,168</u>	<u>22,032</u>
Less: Unallocated (expenses)/income		
– finance costs	(493)	(880)
– taxation	(2,468)	(1,403)
– minority interests	(5,285)	(3,654)
– others	718	(52)
Profit attributable to shareholders	<u>16,640</u>	<u>16,043</u>

3. Profit from ordinary activities before taxation

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

	Six months ended 30 September	
	2003	2002
	<i>HKS'000</i>	<i>HKS'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
(a) Finance cost:		
Interest on bank advances wholly repayable within five years	1,291	880
Less: Borrowings costs capitalised into construction in progress	(798)	-
	<u>493</u>	<u>880</u>
Annual capitalisation rate of borrowing costs	<u>5.5%</u>	<u>-</u>
(b) Other items:		
Cost of inventories *	50,093	44,077
Staff costs	6,566	3,574
Retirement costs	438	286
Depreciation	1,718	1,474
Operating lease charges in respect of premises	1,012	438
Management fees	-	2,500
Research and development costs	762	510
	<u>762</u>	<u>510</u>
* Cost of inventories includes HK\$2,273,000 (2002: HK\$2,229,000) relating to staff cost, depreciation expenses, operating lease charges and retirement costs, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.		

4. Taxation

	Six months ended 30 September	
	2003	2002
	<i>HKS'000</i>	<i>HKS'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax		
Provision for Hong Kong Profits Tax	1,562	1,167
Provision for PRC income tax	1,594	1,410
Tax refunded	(1,022)	(1,338)
	<u>2,134</u>	<u>1,239</u>
Deferred tax		
Origination and reversal of temporary differences	334	164
	<u>2,468</u>	<u>1,403</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the period.

Profits of the subsidiary in the People's Republic of China (the "PRC") ("the PRC subsidiary") were subject to PRC income tax at 24%. As the PRC subsidiary is recognised as a new high technology enterprise, according to Provisions on the Tax Policy of State High Technology Development Zone, Kunming, the PRC subsidiary is entitled to a reduced tax rate of 15%. On 18 January 2002, the PRC subsidiary received an approval 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%. Consequently, the PRC subsidiary was granted a preferential tax rate of 10% from 1 January 2002 to 31 December 2003 pursuant to an approval document issued by the local tax bureau on 14 March 2003.

Pursuant to a notice issued by the local tax bureau on 20 August 2003, PRC income tax of RMB1,083,333 (2002: RMB1,418,182) was refunded to the PRC subsidiary in accordance with the relevant tax rules and regulations.

Tax refund is credited to the consolidated income statement as a reduction in the tax charge for the period when the tax refund is approved.

5. Interim dividends

The Board does not recommend the payment of an interim dividend for the Period (2002: HK\$Nil).

6. Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2003 is based on the profit attributable to shareholders of \$16,640,000 (2002: \$16,043,000) and on the 350,000,000 (2002: 350,000,000) shares in issue and issuable comprising 20,000,000 shares in issue as at 24 September 2003 and 330,000,000 shares issued on 14 October 2003 pursuant to the capitalisation issue, as described in the section headed "Corporate reorganisation" in Appendix V to the Prospectus as if the shares of the Company were outstanding throughout the period from 1 April 2002 to 30 September 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

SUCCESSFUL LISTING

On 14 October 2003 (the “Listing Date”), the Company’s successful listing (the “Listing”) on the Main Board of the Stock Exchange represents a major milestone for the Group. With the Listing, the Group is better positioned to take advantage of acquisition and organic growth opportunities.

RESULTS

The Group’s turnover for the Period amounted to approximately HK\$100.0 million (2002: approximately HK\$84.8 million), representing an increase of approximately 18% as compared with the corresponding period in 2002. Gross profit margin of the Group improved slightly to approximately 49.1% as compared with the corresponding period in 2002 of approximately 46.8%. The Group recorded a profit attributable to shareholders of approximately HK\$16.6 million for the Period (2002: approximately HK\$16.0 million), representing a slight increase of approximately 3.8% compared with the same period in 2002.

BUSINESS REVIEW

The Group achieved satisfactory growth in its turnover and profit despite the onslaught of SARS in both Hong Kong and the PRC during the Period under review. This was primarily a result of the Group’s increased selling and marketing efforts.

Pharmaceutical products

Pharmaceutical products account for the core portion of the Group’s turnover, representing approximately 72.1% of the Group’s turnover for the Period (2002: approximately 71.0%) which amounted to approximately HK\$72.1 million for the Period (2002: approximately HK\$60.2 million). The change represented an increase in turnover of approximately 19.8% as compared to the corresponding period in 2002. Segment results for pharmaceutical products also improved to approximately HK\$15.5 million (2002: approximately HK\$11.4 million), representing an increase of approximately 36.0% as compared to the corresponding period in 2002.

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.

Trading

The turnover of traded pharmaceutical products for the Period amounted to approximately HK\$24.2 million (2002: approximately HK\$19.9 million); representing an increase of approximately 21.7% as compared to the corresponding period in 2002. The turnover of traded pharmaceutical products accounted for approximately 24.2% of the Group’s turnover for the Period (2002: approximately 23.4%). Segment results for traded pharmaceutical products declined to approximately HK\$8.5 million (2002: approximately HK\$10.6 million); representing a decrease of approximately 19.8% as compared to the corresponding period in 2002.

Growth in turnover was primarily a result of the Group’s increased sales effort. However, it led to an increase in selling, distribution and administrative costs, thus rendering a decline in this segment’s results during the Period.

Health care products

The turnover of the Group’s health care products amounted to approximately HK\$3.8 million for the Period (2002: approximately HK\$4.8 million); representing a decline of approximately 20.8% as compared to the corresponding period in 2002. The turnover of health care products accounted for only approximately 3.8% of the Group’s turnover for the Period (2002: approximately 5.6%). Segment results for health care products improved to approximately HK\$226,000 (2002: approximately HK\$39,000).

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 reduced administrative costs.

OUTLOOK

During the Period, the Group has been actively increasing its market penetration in less developed areas of the PRC, however such efforts were partially offset by the Severe Acute Respiratory Syndrome (“SARS”) epidemic. The annual plan to increase market share by a more aggressive pricing strategy was also delayed. With the successful control of SARS in both Hong Kong and the PRC, the Directors expect the Group’s revenue to grow at a faster pace in the coming months.

In order to improve the Group’s competitiveness in the market, every effort is made to further enhance the Group’s research and development capabilities and to strengthen the existing distribution channels as well as to explore new markets.

The major strategies and plans for the future development of the Group are summarized below:

Research and development of new products

Research and development costs for the Period amounted to approximately HK\$1.2 million (2002: approximately HK\$0.8 million) of which approximately HK\$0.4 million (2002: approximately HK\$0.3 million) was capitalised as deposit for product development and approximately HK\$0.8 million (2002: approximately HK\$0.5 million) was charged as pre-production testing expenses. A new product, Reduced Glutathione, was successfully launched in July, 2003. The Group is bidding for the supply of Reduced Glutathione in the PRC and the Directors are hopeful that successful tender of such may improve the Group's turnover of pharmaceutical products.

Except for Loratadine and Loratadine tablet, the product launch of which would be delayed for about three months, all the Group's ongoing research and development projects on new products are proceeding according to schedule.

Expanding the Group's market coverage and distribution networks

With the appointment of a new marketing director, new sales personnel were trained and assigned to various PRC cities not previously explored by the Group in the marketing and distribution of pharmaceutical products. Agreements have been signed with new distributors in promoting products in which the Group held production licenses but not previously produced or sold by the Group.

Expansion through mergers, acquisitions, cooperative arrangements, strategic alliances and joint ventures

The Group is currently in the process of identifying opportunities in the PRC with a view to engage in merger and acquisition activities over businesses similar in nature to the Group or those that relate to the extraction of Chinese herbs as well as those businesses that allow vertical integration possibilities.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2003, the Group had current assets of approximately HK\$109.0 million (31 March 2003: approximately HK\$128.8 million) whilst current liabilities were approximately HK\$42.5 million (31 March 2003: approximately HK\$72.2 million).

As at 30 September 2003, the Group had cash and bank balances of approximately HK\$24.7 million (31 March 2003: approximately HK\$41.9 million). The liquid funds were denominated in Renminbi ("RMB") and Hong Kong dollars ("HK\$") which represent approximately 95.8% and approximately 4.2% respectively, of the total cash and bank balances.

The Group had capital commitments outstanding as at 30 September 2003 of approximately HK\$20.3 million (31 March 2003: approximately HK\$69.1 million) of which approximately HK\$12.5 million had been contracted for (31 March 2003: approximately HK\$16.4 million) and approximately HK\$7.8 million had been authorised but not contracted for (31 March 2003: approximately HK\$52.7 million). Funding for the Group's capital commitments would come from internally generated cash flows as well as bank borrowings.

As at 30 September 2003, the Group had aggregate banking facilities of approximately HK\$80.7 million of which approximately HK\$64.0 million was utilised (as to approximately HK\$51.3 million in long term bank loans, as to approximately HK\$10.8 million in short term bank loans and as to the balance of approximately HK\$1.9 million in letters of guarantee issued by the relevant banks to independent third parties). The Group's aggregate banking facilities of approximately HK\$80.7 million includes approximately HK\$57.3 million equivalent in RMB denominated banking facilities. The utilised banking facilities of approximately HK\$64.0 million includes approximately HK\$57.3 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 RMB10.0 million and 5.49% per annum for RMB50.0 million as at the end of the Period.

As at 30 September 2003, approximately HK\$23.4 million of the banking facilities was secured by certain properties owned by the Group and a related company and personal guarantees by the Directors. The mortgage over the properties of the related company and the Directors' personal guarantees for the Group's banking facilities were released on 9 October 2003 prior to the Listing and replaced on even date by a corporate guarantee of the Company of HK\$23.4 million.

As at 30 September 2003, the gearing ratio was approximately 29.6% (31 March 2003: approximately 19.7%), calculated based on the Group's total bank borrowings of approximately HK\$62.1 million (31 March 2003: approximately HK\$35.8 million) over the Group's total assets of approximately HK\$210.1 million (31 March 2003: approximately HK\$182.0 million).

FINANCIAL MANAGEMENT AND TREASURY POLICY

Most of the Group's assets and liabilities are denominated in RMB and HK\$, hence the Group does not expect significant exposure to foreign exchange fluctuations. However, the Directors would pay close attention to monitor the financial risk and would use appropriate hedging products to cover the interest rate risk and exchange rate risk associated with respective assets, liabilities, rights or obligations.

CHARGE ON GROUP ASSETS

As at 30 September 2003, certain of the Group's buildings with a net book value of approximately HK\$7.0 million was pledged to a bank to obtain credit facilities.

REORGANISATION

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

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2003, the Group had a total of approximately 281 employees (31 March 2003: approximately 259 employees). In order to maintain competitiveness, the employees are remunerated in accordance with their work performance and professional experience with reference to the prevailing industry practice and market environment. In addition to basic salaries, the Group also offers discretionary bonus, contribution to statutory retirement scheme and may grant share options to its employees pursuant to the Scheme (as defined below).

SHARE OPTION SCHEME

Pursuant to the resolution passed by all shareholders of the Company on 24 September 2003, a share option scheme (the "Scheme") was approved and adopted for the purpose of motivating the Group's employees and recognizing their contribution by granting them options to acquire shares in the Company. A summary of the principle terms of the Scheme was disclosed in Appendix V to the Prospectus.

Up to the date of this report, no share options has been granted pursuant to the Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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.

DIRECTOR'S INTERESTS IN SHARES

As the Company's shares have not been listed on the Stock Exchange until 14 October, 2003, no register of Directors' or chief executives' interests pursuant to Part XV of the Securities and Futures Ordinance (Cap: 571 of the Laws of Hong Kong) ("SFO") had been maintained by the Company as at 30 September, 2003.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As the Company's shares have not been listed on the Stock Exchange until 14 October, 2003, no register of interests in shares pursuant to Part XV of the SFO had been maintained by the Company as at 30 September, 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As the Company's shares have not been listed on the Stock Exchange until 14 October, 2003, no register of Directors' or chief executives' interests pursuant to Part XV of the SFO had been maintained by the Company as at 30 September, 2003.

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 management 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 unaudited interim financial statements for the Period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company was listed on the Stock Exchange on 14 October 2003. Thus during the Period, the Company was not subject to compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. However, 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 DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement of the Group for the Period containing all information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Lau Yau Bor
Chairman

Hong Kong, 19 December 2003

* *for identification purposes only*

Please also refer to the published version of this announcement in China Daily dated on 22-12-2003.