



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)

INTERIM RESULTS

For the six months ended 30 September 2004

The directors (the “Directors”) of Jiwa Bio-Pharm Holdings Limited (the “Company”) are pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2004 (the “Period”) together with the comparative figures for the corresponding period in 2003 as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

for the six months ended 30 September 2004

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		2004 \$'000 (Unaudited)	2003 \$'000 (Unaudited)
Turnover	2	105,865	100,036
Cost of sales		(49,193)	(50,872)
Gross profit		56,672	49,164
Other revenue		317	789
Other net loss		(11)	(42)
Selling expenses		(12,450)	(14,622)
Administrative expenses		(16,652)	(9,808)
Other operating expenses		(289)	(595)
Profit from operations		27,587	24,886
Finance cost	3(a)	(1,210)	(493)
Profit from ordinary activities before taxation	3	26,377	24,393
Taxation	4	(3,024)	(2,468)
Profit from ordinary activities after taxation		23,353	21,925
Minority interests		(3,752)	(5,285)
Profit attributable to shareholders		19,601	16,640
Earnings per share – basic	6	3.92 cents	4.75 cents
Earnings per share – diluted	6	3.92 cents	4.75 cents

Jiwa Bio-Pharm Holdings Limited

CONSOLIDATED BALANCE SHEET (UNAUDITED)

at 30 September 2004

(Expressed in Hong Kong dollars)

	At 30 September 2004 \$'000 (Unaudited)	At 31 March 2004 \$'000 (Audited)
Non-current assets		
Fixed assets	92,461	69,071
Construction in progress	53,761	61,664
Investment securities	1,148	1,148
Deferred tax assets	5,512	5,701
	<u>152,882</u>	<u>137,584</u>
Current assets		
Inventories	25,572	18,145
Accounts and bills receivable	70,747	65,291
Prepayments and other receivables	20,122	16,217
Amount due from related companies	1,585	1,614
Tax recoverable	2,551	1,256
Cash and cash equivalents	71,973	87,327
Total current assets	<u>192,550</u>	<u>189,850</u>
Current liabilities		
Bank loans and overdrafts	18,868	19,322
Accounts and bills payable	28,101	23,119
Amounts due to a related company	-	2,972
Accrued expenses and other payables	5,497	4,792
Tax payable	4,069	1,295
Total current liabilities	<u>56,535</u>	<u>51,500</u>
Net current assets	<u>136,015</u>	<u>138,350</u>
Non-current liabilities		
Bank loans	70,755	74,644
	<u>70,755</u>	<u>74,644</u>
Minority interests	40,873	37,122
	<u>40,873</u>	<u>37,122</u>
Net assets	<u>177,269</u>	<u>164,168</u>
Capital and reserves		
Share capital	5,000	5,000
Reserves	172,269	159,168
	<u>177,269</u>	<u>164,168</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the six months ended 30 September 2004

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		2004	2003
		\$'000	\$'000
		(Unaudited)	(Unaudited)
At 1 April		164,168	81,740
Net profit for the period		19,601	16,640
Dividends approved during the period	5	(6,500)	(16,000)
At 30 September		<u>177,269</u>	<u>82,380</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 30 September 2004

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2004	2003
	\$'000	\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	12,976	23,088
Cash outflow from investing activities	(15,637)	(50,041)
Net cash inflow/(outflow) from financing activities	(12,693)	9,722
Net decrease in cash and cash equivalents	(15,354)	(17,231)
Cash and cash equivalents at 1 April	87,327	41,920
Cash and cash equivalents at 30 September	<u>71,973</u>	<u>24,689</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2004

(Expressed in Hong Kong dollars)

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 part of the reorganisation (the "Reorganisation") of the Group. Pursuant to the Reorganisation, the Company became the holding company of the Group on 24 September 2003.

In the opinion of the Board, the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the interim financial report for the prior period had been prepared on the basis of merger accounting, under which the Company had been treated as the holding company of the Group for the prior period presented, rather than from 24 September 2003. In the circumstances, the results of the Group for the six months ended 30 September 2003 included the results of the Company and its subsidiaries with effect from 1 April 2003 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Board, the interim financial statements for the prior period prepared on the abovementioned basis presents more fairly the results 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 Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). These interim financial statements reflect the unaudited financial position of the Group as at 30 September 2004 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 2005. The accounting policies and basis of preparation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31 March 2004.

The interim financial statements have been authorised for issue by the Board of Directors (the "Board") on 9 December 2004. These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

2 Segment reporting

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

	Six months ended 30 September	
	2004 \$'000 (Unaudited)	2003 \$'000 (Unaudited)
Revenue:		
– Pharmaceutical products	69,157	72,095
– Trading	32,159	24,180
– Health care products	4,549	3,761
	<u>105,865</u>	<u>100,036</u>
Segment results:		
– Pharmaceutical products	12,190	15,453
– Trading	12,660	8,489
– Health care products	1,338	226
	<u>26,188</u>	<u>24,168</u>
Less: Unallocated (expenses)/income		
– finance costs	(1,210)	(493)
– taxation	(3,024)	(2,468)
– minority interests	(3,752)	(5,285)
– others	1,399	718
Profit attributable to shareholders	<u>19,601</u>	<u>16,640</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	
	2004 \$'000 (Unaudited)	2003 \$'000 (Unaudited)
(a) Finance cost:		
Interest on bank advances wholly repayable within five years	2,776	1,291
Less: Borrowings costs capitalised into construction in progress	(1,566)	(798)
	<u>1,210</u>	<u>493</u>
Annual capitalisation rate of borrowing costs	<u>5.1%</u>	<u>5.5%</u>
(b) Other items:		
Cost of inventories *	49,193	50,093
Staff costs	6,395	6,566
Retirement costs	533	438
Depreciation	2,292	1,718
Operating lease charges in respect of premises	1,043	1,012
Research and development costs	941	762

* Cost of inventories includes \$3,335,000 (2003: \$2,273,000) 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	
	2004	2003
	\$'000	\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current tax		
Provision for Hong Kong Profits Tax	2,808	1,562
Provision for PRC income tax	1,049	1,594
Tax refunded	<u>(1,022)</u>	<u>(1,022)</u>
	2,835	2,134
Deferred tax		
Origination and reversal of temporary differences	189	334
	<u>3,024</u>	<u>2,468</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the period.

Profits of Kunming Jida Pharmaceutical Co. Ltd ("KJP"), a subsidiary of the Company in the People's Republic of China (the "PRC") was subject to PRC income tax at 24%. As KJP is recognised as a new high technology enterprise, according to the 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 from the local tax bureau, pursuant to which KJP was granted 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, KJP was granted a preferential tax rate of 10% from 1 January 2002 to 31 December 2004 pursuant to approval documents issued by the local tax bureau on 14 March 2003 and 17 January 2004.

Pursuant to a notice issued by the local tax bureau on 6 September 2004, PRC income tax of Renminbi ("RMB")1,083,333 (2003: RMB1,083,333) was refunded to KJP 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. There is no assurance that the Group will receive such refund in the future.

5 **Dividends**

	Six months ended 30 September	
	2004	2003
	\$'000	\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Dividend approved during the period	<u>6,500</u>	<u>16,000</u>

Pursuant to the resolutions passed at the shareholders' meeting on 23 September 2004, a final dividend of \$6,500,000 (2003: \$16,000,000) payable to the shareholders of the Company was declared and approved in respect of the year ended 31 March 2004.

The Board does not recommend the payment of an interim dividend for the period (2003: \$Nil).

6 **Earnings per share**

The calculation of basic earnings per share for the six months ended 30 September 2004 is based on the profit attributable to shareholders of \$19,601,000 and the 500,000,000 ordinary shares in issue during the period. The calculation of basic earnings per share for the six months ended 30 September 2003 was based on the profit attributable to shareholders of \$16,640,000 and on the 350,000,000 ordinary shares of the Company outstanding after the Group's Reorganisation and capitalisation issue.

Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares in existence for both periods presented.

7 **Post balance sheet events**

Increasing controlling interest in KJP from 65% to 70%

On 28 September 2004, the Group entered into an agreement with Yunnan Pharm Group to acquire a 5% interest in KJP for approximately RMB 6.35 million; effectively increasing the Group's controlling interest in KJP from 65% to 70%. The acquisition was approved by the Ministry of Commerce of the PRC in Yunnan Province on 18 October 2004 and a renewed certificate of approval issued by the Yunnan Provincial People's Government on 28 October 2004 reflecting the change in interest.

Possible acquisition of a sino-foreign equity joint venture enterprise in the PRC

Pursuant to two memorandums of understandings entered into between the Group and two independent third parties separately on 6 October 2004 and 8 October 2004 respectively, the Group intends to acquire in total an effective controlling interest of 72% in Yunnan Phytopharmaceutical Co. Ltd., a sino-foreign equity joint venture enterprise established in the PRC. No binding agreement in relation to the proposed acquisition has yet been signed and the Company would make announcements in accordance with the Listing Rules of the Stock Exchange as and when binding agreements are entered into by the Group in respect of the proposed acquisition.

Joint venture in manufacturing pharmaceutical bulk materials

On 10 November 2004, the Group entered into an agreement with Rintech Inc. ("Rintech"), a company established in the United States of America, to form a company to be established in the British Virgin Islands with limited liability ("JV Company"). The JV Company will be held as to 80% by the Group and 20% by Rintech with capital contributions in two stages resulting ultimately in a paid up capital of US\$3 million in the JV Company.

The JV Company will be an investment holding company and would form a wholly foreign owned enterprise to be established in the PRC to engage in the manufacture of pharmaceutical bulk materials mainly for export to the United States. Details of the agreement with Rintech can be found in the Company's announcement dated 11 November 2004 and the Company's circular to its shareholders dated 1 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

The Group maintained healthy and stable growth over the same period last year in

- (i) turnover, which rose 5.8 % to approximately HK\$105.9 million;
- (ii) gross profit, which grew 15.3% to approximately HK\$56.7 million; and
- (iii) profit attributable to shareholders, which surged by 17.8% to approximately HK\$19.6 million.

	Six months ended 30 September		Percentage Increase (Unaudited)
	2004 <i>HK\$'000</i> (Unaudited)	2003 <i>HK\$'000</i> (Unaudited)	
Turnover	105,865	100,036	5.8%
Gross profit	56,672	49,164	15.3%
Profit attributable to shareholders	19,601	16,640	17.8%

The Board does not recommend any interim dividends for the six months ended 30 September 2004.

CORPORATE PROFILE

The Group is principally engaged in the research, development, manufacture and sale of pharmaceutical products including new drugs, generic drugs and health care products as well as trading of pharmaceutical products. The Group is currently headquartered in Hong Kong. There are 13 production lines of the Group in the PRC of which 6 have been accredited with Good Manufacturing Practice ("GMP") licenses. The sales network of the Group is made up of over 800 pharmaceutical distributors which covers 27 provinces and autonomous regions across the PRC.

There are essentially three business segments of the Group:

1. Manufacturing and sales of new drugs and generic drugs in the PRC. Well known products include Loratadine and Triamcinolone Acetonide for the treatment of asthma and arthritis respectively;
2. Trading of pharmaceutical products. The Group acts as distribution agent for a number of European pharmaceutical companies in the PRC. Famous products include Reduced Glutathione and synthetic Salmon Calcitonin for the treatment of hepatic diseases and osteoporosis respectively; and
3. Manufacturing of health-care products in the PRC, which are principally sold in Hong Kong. Renowned products include Royal 2000, which enhances general blood circulation, as well as Pen Yan Jing, a traditional Chinese medicine ("TCMs") for treating gynaecological inflammation.

BUSINESS REVIEW

The Period under review is one of progress as well as challenge for the Group. Turnover for the Group for the Period amounted to approximately HK\$105.9 million, representing an increase of approximately 5.8 % over the same period in 2003. The profit attributable to shareholders rose by 17.8% to approximately HK\$19.6 million.

Pharmaceutical products

Self manufactured pharmaceutical products continued to be the main contributor of the Group's turnover, representing approximately 65.3% of the Group's turnover for the Period (2003: approximately 72.1%) and amounted to approximately HK\$69.2 million (2003: approximately HK\$72.1 million); reflecting a mild drop in turnover for this segment of approximately 4.1% over the corresponding period. Segment results for self manufactured pharmaceutical products also declined to approximately HK\$12.2million (2003: approximately HK\$15.5 million), representing a decrease of approximately 21.1% when compared with the same period in the previous year.

The decline in turnover and revenue was mainly the result of two factors. A downward price adjustment imposed industry wide on various antibiotic products by the China National Development and Reform Commission ("CNDRC") in June 2004 caused retail price cuts exceeding 30% on average and affected 13 of the Group's products. In addition, the State Food and Drug Administration of the PRC ("SFDA") introduced a new directive with effect from 1 July 2004 restricting over-the-counter sales of antibiotics and as a result of which sale of antibiotics could be made only with eligible medical practitioner's prescriptions. This has an immediate impact on the Group's sales of antibiotics as the market needs time to adjust to the new policy.

The Group has anticipated such changes and counter actions undertaken included changing the Group's sales mix via the launch of new non-antibiotic products including Loratadine, a new drug for the treatment of allergic disease the production license of which was obtained in May 2004 and would be launched in December 2004. Product diversification would minimise the effect of any regulator induced market upheavals in the future.

Trading

Revenue for trading of pharmaceutical products for the Period under review amounted to approximately HK\$32.2 million (2003: approximately HK\$24.2 million); representing an increase of approximately 33.1% over the same period in 2003. Segment results for trading of pharmaceutical products increased to approximately HK\$12.7 million (2003: approximately HK\$8.5million), representing a surge of 49.1% over the corresponding period in 2003.

The significant increases in turnover and segment results were essentially attributed to three main factors. First of all, the Group obtained approval from the CNDRC on 15 January 2004 to increase the nationwide retail price of Reduced Glutathione in the PRC, one of the Group's main product in the trading segment. This has an immediate impact on the trading segment's results. Secondly, our committed efforts in developing the Group's marketing network and enhancing the professional standards of our sales staff in the PRC has started to bear fruit, resulting in a higher trading segment turnover over the same period last year. Meanwhile the Group's listed status on the Stock Exchange has also enhanced its image as a reliable and quality pharmaceutical enterprise. Finally, a new product, Synthetic Salmon Calcitonin (for treating osteoporosis), was launched in June 2004 which the Group believes would grow to become an important profit contributor for the trading segment in the future.

Health care products

Revenue of the Group's health care products amounted to approximately HK\$4.5 million for the Period under review (2003: approximately HK\$3.8 million), representing an increase of approximately 21.0% over the same period in 2003. Turnover for health care products only accounted for approximately 4.3% of the Group's turnover for the Period (2003: approximately 3.8%). Segment results for health care products increased sharply to approximately HK\$1.3 million (2003: approximately HK\$0.2 million), representing a sharp increase of approximately 492% over the same period last year.

The development potential of health care products has been realised by the Group since 2003. The Group's efforts on both marketing and research and development of new health care products has bolstered the sales and results of this segment in the Period under review.

The Group is well-positioned in the Hong Kong market and stands to benefit from the increasing regulatory control over TCMs in Hong Kong. The Group's experience in registration of pharmaceutical products in the PRC is instrumental in its successful submission of more than 20 products for registration in Hong Kong during the Period. Consumer's confidence in the Group's TCMs has grown from strength to strength as a result of the Group's sustained reputation and experience in the production of TCMs.

During the Period, the Group focused its marketing efforts on direct sales rather than the traditional promotion channels. As a result, advertising expenses were reduced significantly which helped to improve segment results for the Period.

Research and Development

Research and Development costs incurred by the Group increased from approximately HK\$0.76 million in 2003 to approximately HK\$0.94 million for the Period under review. We would expect such increase to continue as more and more new products of the Group enter the clinical and trial production phases.

Completion of New Manufacturing Plant

The construction of the new manufacturing plant in Kunming National Hi-technology Industry Development Zone, Kunming City has been completed. This allows the Group to greatly expand its platform for developing new products and implementing new marketing strategies. The general oral formulation production line, which is one of the Group's production lines in the new plant, obtained GMP certification in May 2004.

OUTLOOK

Efforts in streamlining the existing management and operational structure resulted in a more efficient Group structure. Support from the Group's reliable and experienced management team is vital for developing sound long-term business strategies; which in turn would determine the Group's ability to maintain a strong and leading position in the pharmaceutical industry.

During the Period, government policies in both the PRC and Hong Kong were changing rapidly, while its effects were being felt and digested by the pharmaceutical industry. Despite these unfavourable factors, the Group has been able to improve its overall results during the Period compared over the same period last year. This is possible because of the foresight and sound business strategies of the Group, which would continue to stand the Group in good stand in the coming years.

Looking ahead, the Group believes that 2005 would be a year of opportunities. Despite the austerity measures imposed by the PRC government, infectious epidemics like SARS and bird flu have led to heightened health awareness in the public, which serves to expand the pharmaceutical and health care markets.

In terms of new drugs, the Group had launched Synthetic Salmon Calcitonin and would be launching soon 2 new drugs, namely Artrodar and Loratadine in the later half of the year, all of which are expected to contribute to the turnover and results for the coming financial year end.

Development of U.S. market

It has always been the Group's long term strategy to expand into the U.S. pharmaceutical market, being the biggest pharmaceutical market globally. In November 2004, the Group has entered into a joint-venture agreement with Rintech (a U.S. firm principally engaged in the research and development of pharmaceutical bulk material). The main purpose of the agreement is to set up a United States Food and Drug Administration for Food Safety and Applied Nutrition ("FDA") approved PRC manufacturing plant producing pharmaceutical bulk materials aimed for export to the U.S. market. A secondary purpose would be to capitalise on Rintech's research experience in new product discovery and development.

Having a FDA approved manufacturing plant in the PRC would raise the Group's status immensely in the pharmaceutical industry; being seen as an internationally-recognized manufacturer of quality pharmaceutical products. Exports to the U.S. market would also result in market diversification, reducing the Group's overall dependence on the PRC market.

Development of the U.S. market would also serve as a platform in the future to recruit top notch research professionals so that the Group may one day develop worldwide new products to be patented globally.

Growth via acquisitions

Pursuant to two memorandum of understandings entered into between the Group and two independent third parties separately on 6 October 2004 and 8 October 2004 respectively, the Group intends to acquire in total an effective controlling interest of 72% in Yunnan Phytopharmaceutical Co. Ltd., a sino-foreign equity joint venture enterprise established in the PRC. No binding agreement in relation to the proposed acquisition has yet been signed and the Company would make announcements in accordance to the Listing Rules of the Stock Exchange as and when binding agreements are entered into by the Group in respect of the proposed acquisition. The purpose of the intended acquisition is to broaden the Group's product range in TCMs.

The Group would continue to actively seek out acquisition opportunities that would widen its product range and /or technical and research capabilities.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, cash and cash equivalents of the Group totaled approximately HK\$72.0 million (31 March 2004: approximately HK\$87.3 million), of which approximately 8.9% are in Hong Kong dollars, 69.5% in Renminbi ("RMB") and 21.6% 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.

As at 30 September 2004, the Group had aggregate banking facilities of approximately HK\$168.2 million of which approximately HK\$95.7 million was utilised (as to approximately HK\$70.7 million in long term bank loans, as to approximately HK\$18.9 million in short term bank loans and as to the balance of approximately HK\$6.1 million in letters of guarantee issued by the relevant banks to independent third parties). The Group's aggregate banking facilities of approximately HK\$168.2 million includes approximately HK\$147.2 million equivalent in RMB denominated banking

facilities. The utilised banking facilities of approximately HK\$95.7 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 4.536% per annum for RMB5.0 million, 4.779% per annum for RMB15.0 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 30 September 2004, approximately HK\$21.0 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\$28.28m. The secured banking facilities were utilized as to approximately HK\$6.1 million in letters of guarantee as at the end of the Period.

As at 30 September 2004, the gearing ratio was approximately 25.9% (31 March 2004: approximately 28.7%), calculated based on the Group's total bank borrowings of approximately HK\$89.6 million (31 March 2004: approximately HK\$93.9 million) over the Group's total assets of approximately HK\$345.4 million (31 March 2004: approximately HK\$327.4 million).

The Group maintained cash and cash equivalents totaling approximately HK\$72.0 million against aggregate utilized banking facilities of approximately HK\$95.7 million as at 30 September 2004 to reserve funds for possible acquisitions and joint ventures. The Group increased its controlling interest in KJP from 65% to 70% (approval from Ministry of Commerce of PRC in Yunnan Province obtained on 18 October 2004) for a consideration of approximately RMB 6.35 million. An agreement to set up a US\$3 million joint venture with a U.S. firm Rintech Inc. was signed on 10 November 2004 to manufacture pharmaceutical bulk materials in the PRC mainly for export to the U.S. Two memorandum of understandings were entered into by the Group with two independent third parties separately on 6 October 2004 and 8 October 2004 to acquire a controlling interest of 72% in Yunnan Phytopharmaceutical Co. Ltd., a sino-foreign equity joint venture enterprise established in the PRC which is principally engaged in the research, development, manufacture and sale of traditional chinese herbal medicines in the PRC.

As at 30 September 2004, the Group had current assets of approximately HK\$192.6 million (31 March 2004: approximately HK\$189.9 million) whilst current liabilities were approximately HK\$56.5 million (31 March 2004: approximately HK\$51.5 million).

The Group had capital commitments outstanding as at 30 September 2004 of approximately HK\$14.3 million (31 March 2004: approximately HK\$18.2 million) of which approximately HK\$14.3 million had been contracted for (31 March 2004: approximately HK\$18.2 million). Funding for the Group's capital commitments would come from internally generated cash flows as well as bank borrowings.

CHARGE ON GROUP ASSETS

As at 30 September 2004, certain of the Group's buildings with a net book value of approximately HK\$6.8 million was pledged to a bank to obtain credit facilities.

CONTINGENT LIABILITIES

As at 30 September 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 AND REMUNERATION POLICY

As at 30 September 2004, the Group had a total of approximately 371 employees (31 March 2004: approximately 333 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 share options to eligible employees under its share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2004.

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 ("Model Code") contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors and they confirmed that they have complied with the Model Code.

APPOINTMENT OF NEW INDEPENDENT NON-EXECUTIVE DIRECTOR

A new independent non-executive Director, Mr. Fung Tze Wa, was appointed on 1 September 2004. Mr Fung, aged 47, is a certified public accountant and the director of an accounting firm in Hong Kong. He has many years of experience in auditing, taxation and company secretarial practice in Hong Kong. The Group believes that Mr Fung's professional accounting knowledge and business connections would enhance the Group's corporate governance and business development objectives.

AUDIT COMMITTEE

The audit committee, comprising of three independent non-executive directors of the Company, Mr. Fung Tze Wa (Chairman of the audit committee), Mr. Choy Ping Sheung and Mr. Soo Ping Shu, Samuel, has reviewed with the management of the Company 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 of the Group for the six months ended 30 September 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules save that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Bye-laws.

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.

APPRECIATION

On behalf of the Directors, I would like to express our gratitude to our shareholders and business associates for their continued support, and extend our 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 Yau Bor
Chairman

As at the date of this announcement, members of the Board comprise three executive Directors, namely Mr. Lau Yau Bor, Madam Chan Hing Ming and Mr. Lau Kin Tung and three independent non-executive Directors, namely Mr. Fung Tze Wa, Mr. Choy Ping Sheung and Mr. Soo Ping Shu, Samuel.

Hong Kong, 9 December 2004

* *for identification only*

Please also refer to the published version of this announcement in China Daily dated 10 December 2004.