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)

for the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2003	2002
	Note	$'000	$'000
		(Unaudited)	(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

The notes on pages 5 to 16 form part of these interim financial statements.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

at 30 September 2003

(Expressed in Hong Kong dollars)

	Note	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Non-current assets			
Fixed assets	7	45,352	42,428
Construction in progress	7	49,920	4,520
Deferred tax assets		5,845	6,179
		101,117	53,127
Current assets			
Inventories		20,954	24,480
Accounts and bills receivable	8	38,501	45,170
Prepayments and other receivables		24,758	17,264
Cash and cash equivalents	9	24,746	41,920
Total current assets		108,959	128,834
Current liabilities			
Bank loans and overdrafts (secured)		1,370	3,175
Other bank loans		9,434	28,302
Accounts and bills payable	10	14,499	25,411
Amounts due to a related company	11	–	8,585
Accrued expenses and other payables		13,736	5,330
Tax payable		3,500	1,444
Total current liabilities		42,539	72,247
Net current assets		66,420	56,587
Non-current liabilities			
Bank loans (secured)		4,117	4,342
Other bank loans		47,170	–
		51,287	4,342
Minority interests		33,870	23,632
Net assets		82,380	81,740
Capital and reserves			
Share capital	12	200	2,200
Reserves	13	82,180	79,540
		82,380	81,740

The notes on pages 5 to 16 form part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2003	2002
	Note	**$'000**	$'000
		(Unaudited)	(Unaudited)
At 1 April		**81,740**	58,927
Net profit for the period		**16,640**	16,043
Dividends approved during the period	*5*	**(16,000)**	(8,000)
At 30 September		**82,380**	66,970

The notes on pages 5 to 16 form part of these interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2003	2002
	$'000	$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**23,088**	24,049
Cash outflow from investing activities	**(50,041)**	(13,072)
Net cash inflow/(outflow) from financing activities	**9,722**	(14,616)
Net decrease in cash and cash equivalents	**(17,231)**	(3,639)
Cash and cash equivalents at 1 April	**41,920**	26,966
Cash and cash equivalents at 30 September	**24,689**	23,327
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**24,746**	23,762
Bank overdrafts repayable within three months	**(57)**	(435)
	24,689	23,327

The notes on pages 5 to 16 form part of these interim financial statements.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 Basis of preparation

Jiwa Bio-Pharm Holdings Limited (the "Company") was incorporated in Bermuda on 19 June 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) (the "Companies Act") as part of the reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group"). Pursuant to the Reorganisation, 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 of Hong Kong Limited (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 set out on pages 1 to 16 have been authorised for issue by the board of directors 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. KPMG's independent review report to the board of directors is included on page 17.

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	2002
	$'000	$'000
	(Unaudited)	(Unaudited)
Revenue:		
– Pharmaceutical products	**72,095**	60,175
– Trading	**24,180**	19,861
– Health care products	**3,761**	4,750
	100,036	84,786
Segment results:		
– Pharmaceutical products	**15,453**	11,400
– Trading	**8,489**	10,593
– Health care products	**226**	39
	24,168	22,032
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	**16,640**	16,043

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
	$'000	$'000
	(Unaudited)	(Unaudited)
(a) *Finance cost:*		
Interest on bank advances wholly repayable within five years	**1,291**	880
Less: Borrowings costs capitalised into construction in progress	**(798)**	–
	493	880
Annual capitalisation rate of borrowing costs	**5.5%**	–

3 Profit from ordinary activities before taxation (Continued)

	Six months ended 30 September	
	2003	2002
	$'000	$'000
	(Unaudited)	(Unaudited)
(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 (Note 15)	**–**	2,500
Research and development costs	**762**	510

* Cost of inventories includes $2,273,000 (2002: $2,229,000) relating to staff costs, 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
	$'000	$'000
	(Unaudited)	(Unaudited)
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)
	2,134	1,239
Deferred tax		
Origination and reversal of temporary differences	**334**	164
	2,468	1,403

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.

4 Taxation (Continued)

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 Dividends

	Six months ended 30 September	
	2003	2002
	$'000	$'000
	(Unaudited)	(Unaudited)
Dividend approved during the period	**16,000**	8,000

Pursuant to resolutions passed at the shareholders' meeting on 14 July 2003, a final dividend of $16,000,000 (2002: $8,000,000) payable to the then shareholders of certain subsidiaries of the Group was declared and approved in respect of the year ended 31 March 2003.

The board of directors does not recommend the payment of an interim dividend for the period (2002: $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 (note 12(iv)) and 330,000,000 shares issued on 14 October 2003 (note 16) 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.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods presented.

7 Fixed assets

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Cost:		
At 1 April 2003/1 April 2002	**54,481**	39,530
Additions	**3,701**	13,238
Transfer from construction in progress	**941**	1,713
At 30 September 2003/31 March 2003	**59,123**	54,481
Accumulated depreciation and impairment loss:		
At 1 April 2003/1 April 2002	**12,053**	8,035
Charge for the period/year	**1,718**	3,214
Impairment loss	**–**	804
At 30 September 2003/31 March 2003	**13,771**	12,053
Net book value:		
At 30 September 2003/31 March 2003	**45,352**	42,428

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

8 Accounts and bills receivable

An ageing analysis of the accounts and bills receivable is as follows:

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Within 3 months	**28,418**	36,335
Aged over 3 months but less than 6 months	**1,005**	4,914
Aged over 6 months	**2,454**	4,453
Less: Provision	**(532)**	(532)
	31,345	45,170
Bills receivable	**7,156**	–
	38,501	45,170

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

9 Cash and cash equivalents

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Cash at bank and in hand	24,746	41,920

10 Accounts and bills payable

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

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Accounts payable		
– Due within 1 month or on demand	444	104
– Due after 1 month but within 3 months	11,017	16,145
– Due after 3 months but within 6 months	1,100	2,153
Bills payable	1,938	7,009
	14,499	25,411

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

11 Amount due to a related company

Amount due to a related company was unsecured, interest-free and repayable on demand.

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Yunnan Pharmaceutical and Industrial Corporation Limited	–	8,585

Yunnan Pharmaceutical and Industrial Corporation Limited is the minority shareholder of the Company's PRC subsidiary.

12 Share capital

	At 30 September 2003		At 31 March 2003	
	No. of shares	Amount $'000 (Unaudited)	No. of shares	Amount $'000 (Audited)
Authorised:				
Ordinary shares of $0.01 each	1,000,000,000	10,000	–	–
Ordinary shares of $1,000 each	–	–	2,200	2,200
Issued and fully paid:				
At 1 April 2003/1 April 2002	2,200	2,200	2,200	2,200
Capital elimination on consolidation *(Note (i))*	(2,200)	(2,200)	–	–
Issuance of shares *(Note (ii))*	20,000,000	200	–	–
At 30 September 2003/31 March 2003	20,000,000	200	2,200	2,200

Notes:

(i) The share capital in the consolidated balance sheet as at 31 March 2003 represented the aggregate amount of the nominal value of the issued share capitals of Jiwa International Limited, Jiwa Pharmaceuticals Limited and Tech-Medi Development Limited, the subsidiaries of the Company.

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

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

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

(v) On 24 September 2003, a share option scheme was approved by the shareholders under which the directors may, at their discretion, offer employees, executives or officers of the Company or any of its subsidiaries (including executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and other eligible participants as referred to in the rules of the share option scheme to take up options to subscribe for shares in the Company, representing up to a maximum of 10% of the shares in issue from time to time, subject to the terms and conditions stipulated in the scheme.

As at 30 September 2003, no options had been granted under the share option scheme.

13 Reserves

Movements in reserves

	Contributed surplus $'000	General reserve fund $'000	Enterprise expansion fund $'000	Capital reserve $'000	Retained profits $'000	Total $'000
(Audited)						
At 1 April 2002	–	–	2,830	–	53,897	56,727
Profit for the year	–	–	–	–	30,813	30,813
Transfer to reserves *(Note (iii))*	–	25	25	–	(50)	–
Dividend approved *(Note 5)*	–	–	–	–	(8,000)	(8,000)
At 31 March 2003	–	25	2,855	–	76,660	79,540
(Unaudited)						
At 1 April 2003	–	25	2,855	–	76,660	79,540
Arising on reorganisation *(Note (i))*	2,000	–	–	–	–	2,000
Profit for the period	–	–	–	–	16,640	16,640
Capitalisation of enterprise expansion fund *(Note (ii))*	–	–	(2,830)	2,830	–	–
Final dividend approved in respect of the previous years *(Note 5)*	–	–	–	–	(16,000)	(16,000)
At 30 September 2003	2,000	25	25	2,830	77,300	82,180

Notes:

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

(ii) Upon completion of the capital verification in April 2003, the PRC subsidiary capitalised the enterprise expansion fund of RMB3,000,000 to its registered share capital according to a board resolution of the PRC subsidiary dated 18 January 2003.

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

14 Commitments

(a) Commitments under operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Within one year	464	800
After one year but within five years	134	113
	598	913

(b) Capital commitments

The Group had capital commitments outstanding as at 30 September 2003 not provided for in the interim financial statements as follows:

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Contracted for		
– acquisition or construction of fixed assets	8,942	13,021
– acquisition of production know-how	3,552	3,340
	12,494	16,361
Authorised but not contracted for		
– acquisition or construction of fixed assets	7,813	52,757
	20,307	69,118

15 Material related party transactions

The following represents a summary of material transactions between the Group and the related parties:

(a) Recurring

	Note	Six months ended 30 September 2003 $'000 (Unaudited)	2002 $'000 (Unaudited)
Sales of goods:			
– Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	*(i)*	**11,138**	13,213
– Yunnan Jiwa Pharm Logistics Company Limited ("YJPL")	*(ii)*	**8,667**	2,648
Purchase of goods:			
– Yunnan Pharm Group	*(i)*	**276**	262
Rentals paid			
– Lau Yau Bor	*(iii)*	**40**	40
– Jiwa Investment Limited	*(iv)*	**558**	–

Notes:

(i) The Group sold pharmaceutical products to Yunnan Pharm Group and purchased raw materials from Yunnan Pharm Group, based on prevailing market prices.

(ii) YJPL is a subsidiary of Jiwa Pharm & Chemicals Limited which is controlled by the directors of the Company. YJPL is one of the distributors of the Group's pharmaceutical products in the PRC. Sales of YJPL were based on prevailing market prices.

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

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

(b) Non-recurring

	Note	Six months ended 30 September 2003 $'000 (Unaudited)	2002 $'000 (Unaudited)
Management fees	*(i)*	**–**	2,500
Transfer of property	*(ii)*	**–**	4,500
Assignment of accounts receivable	*(iii)*	**–**	12,421

15 Material related party transactions (Continued)

Notes:

(i) Management fees were paid to Jiwa Investment Limited, for administrative support and lease of office premises provided to the Group during the period, which were determined at a cost basis. The management arrangement ceased in September 2002.

(ii) On 1 September 2002, the Group entered into an agreement with Jiwa Investment Limited to acquire an office premises located in Hong Kong at the prevailing market value of $4,500,000.

(iii) On 31 July 2002, Yunnan Jiwa Pharm Logistics Company Limited, which is controlled by the directors of the Company, assigned certain of its accounts receivable totalling RMB13,166,000 (equivalent to approximately $12,421,000) to the Company's PRC subsidiary in settlement of its liability to the PRC subsidiary.

(iv) As at 31 March 2003, the Group's banking facilities of approximately $23,369,000 were secured by legal charges over certain properties owned by Jiwa Investment Limited and guaranteed by the directors. The mortgage over the properties of related parties and the directors' personal guarantees were released on 9 October 2003, and replaced by corporate guarantees and/or other collaterals provided by the Group.

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

In addition to the outstanding balance with a related party at 31 March 2003 disclosed in note 11, the following balances with related parties have been included under accounts and bills receivable:

	At 30 September 2003 $'000 (Unaudited)	At 31 March 2003 $'000 (Audited)
Yunnan Pharm Group	**932**	1,693
YJPL	**5,850**	4,846
	6,782	6,539

16 Post balance sheet event

Listing of the Company

On 14 October 2003, pursuant to written resolutions of the shareholders of the Company passed on 24 September 2003, conditional on the share premium account of the Company being credited as a result of the share offer, an amount of $3,300,000 standing to the credit of the share premium account was applied in paying up in full at par 330,000,000 shares of $0.01 each which were allotted and issued as fully paid to persons whose names appear on the register of members of the Company at the close of business on 24 September 2003 (as nearly as possibly without involving fractions) to its or their then existing shareholders in the Company.

On 14 October 2003, a further 150,000,000 shares of $0.01 each were issued and offered for subscription at a price of $0.48 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately $57,400,000 (including interest income) net of issuance expenses from the issue.

17 Approval of the interim financial statements

The interim financial statements was approved by the board of directors on 19 December 2003.

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
JIWA BIO-PHARM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial statements set out on pages 1 to 16.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial statements is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial statements.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements for the six months ended 30 September 2003.

KPMG
Certified Public Accountants
Hong Kong, 19 December 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 the Severe Acute Respiratory Syndrome ("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.

BUSINESS REVIEW (CONTINUED)

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 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.

OUTLOOK (CONTINUED)

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 summarised 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.

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

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 recognising 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 option 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.

By Order of the Board
Lau Yau Bor
Chairman

Hong Kong, 19 December 2003