NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 REORGANISATION

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) 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 Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 14 October 2003.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the periods presented, rather than from 24 September 2003. Accordingly, the consolidated results of the Group for the years ended 31 March 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is 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 consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

Further details of the Reorganisation are set out in the prospectus dated 30 September 2003 issued by the Company.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Group. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from its activities.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment a subsidiary is stated at cost less any impairment losses (see note 3(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Investment securities

The Group's policies for investments in securities other than investments in subsidiaries are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the consolidated balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the consolidated income statement, such provisions being determined for each investment individually.

(ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated income statement as they arise.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 3(g)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Land and buildings	20 – 30 years
Motor vehicles	3 years
Plant and machinery	5 – 15 years
Furniture, fixtures and equipment	5 years

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(f) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made.

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;
– construction in progress;
– investment in subsidiaries; and
– investment securities.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly to equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income tax (Continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Tax refund is recognised in the consolidated income statement as a reduction of the tax expense when the right to receive payment is established, which is taken to be the point of time when the relevant approval document is issued by the relevant government authorities.

(k) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to retirement benefit schemes are recognised as an expense in the consolidated income statement as incurred.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(iii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the consolidated income statement as revenue on a systematic basis over the useful life of the asset.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit or loss on disposal.

(o) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format. The Group operates predominantly in the PRC. Accordingly, geographical segment information is not presented.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions balances are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4 TURNOVER

The Group is principally engaged in the manufacturing and sales of pharmaceutical products and health care products.

Turnover represents the sales value of goods sold less return and discounts.

5 OTHER REVENUE AND NET (LOSS)/INCOME

	2004	2003
	$'000	$'000
Other revenue		
Interest income	**269**	158
Others	**118**	20
	387	178
Other net (loss)/income		
Net exchange loss	**(126)**	(82)
Net gain on disposal of fixed assets	**28**	–
Others	**–**	179
	(98)	97

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		2004 $'000	2003 $'000
(a)	Finance costs:		
	Interest on bank advances wholly repayable within five years	**3,286**	1,709
	Less: Borrowing costs capitalised into construction in progress	**(2,013)**	(109)
		1,273	1,600
	Annual capitalisation rate of borrowing costs	**5.0%**	4.8%
(b)	Staff costs:		
	Salaries, wages and other benefits	**14,989**	10,211
	Contributions to defined contribution plans	**947**	724
		15,936	10,935

Note: Staff costs include operating lease charges in respect of premises totalling $809,959 (2003: $640,000) which are also included in total operating lease charges in respect of premises disclosed in Note 6(c) below.

		2004 $'000	2003 $'000
(c)	Other items:		
	Costs of inventories sold (Note (i))	**93,620**	95,547
	Auditors' remuneration – audit services	**855**	200
	Depreciation	**3,813**	3,214
	Impairment loss on fixed assets	**–**	804
	Operating lease charges in respect of premises		
	– minimum lease payments	**1,806**	1,897
	– contingent rental	**134**	–
	Management fees (note 33) (Note (ii))	**–**	2,500
	Research and development costs (Note (iii))	**1,715**	1,502
	Write back of provision for bad and doubtful debts	**(532)**	(447)

Notes:

(i) Cost of inventories includes $4,807,000 (2003: $4,493,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

(ii) Management fees comprise staff costs of $Nil (2003: $706,010) which are also included in the total amount of staff costs disclosed above.

(iii) Research and development costs comprise staff costs of $289,000 (2003: $654,000) which are also included in the total amount of staff costs disclosed above.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004	2003
	$'000	$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**4,401**	2,848
(Over)/under-provision in respect of prior years	**(5)**	49
	4,396	2,897
Current tax – Outside Hong Kong		
Provision for PRC income tax	**2,829**	2,044
Tax refund	**(2,649)**	(1,338)
	180	706
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	**478**	327
	5,054	3,930

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

Unless tax reliefs are available to the Group, the provision for current income tax in the People's Republic of China (the "PRC") is based on a statutory rate of 33% of the assessable income determined in accordance with the relevant income tax rules and regulations of the PRC.

Profits of Kunming Jida Pharmaceutical Company Limited ("KJP") were subject to PRC income tax at 24%. As KJP is recognised as a new technology enterprise, according to Provisions on the Tax Policy of State High Technology Development Zone, Kunming, KJP is entitled to a reduced tax rate of 15%. On 18 January 2002, KJP received an approval document from the local tax bureau, subject to annual application, a 50% tax relief for the period up to 31 December 2004. As stipulated by Implementation Procedures of the Ministry of Finance on the Adoption of Rules Governing Preferential Tax Treatments in the "Provisions of the State Council for the Encouragement of Foreign Investment", the minimum PRC income tax rate applicable to a new high technology enterprise is 10%. Accordingly, KJP was granted a preferential tax rate of 10% from 1 January 2002 to 31 December 2004 pursuant to approval documents issued by the local tax bureau on 14 March 2003 and 17 January 2004 respectively.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) Taxation in the consolidated income statement represents: (Continued)

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

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

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

	2004	2003
	$'000	$'000
Profit before tax	**57,582**	43,675
Notional tax on profit before tax, calculated at the rates applicable	**7,523**	5,392
Tax effect of non-deductible expenses	**98**	62
Tax effect of non-taxable revenue	**(48)**	(309)
Tax refund	**(2,649)**	(1,338)
Others	**135**	74
(Over)/under-provision in prior years	**(5)**	49
Actual tax expense	**5,054**	3,930

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004	2003
	$'000	$'000
Fees	**160**	–
Salaries and other emoluments	**2,460**	1,833
Retirement scheme contributions	**21**	21
	2,641	1,854

Included in the directors' remuneration were fees of $160,000 (2003: $Nil) paid to independent non-executive directors during the year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION (Continued)

A director was granted share options during the year under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 26.

The remuneration of the directors is within the following bands:

	2004 Number of directors	2003 Number of directors
$Nil – $1,000,000	**4**	3
$1,000,000 – $1,500,000	**1**	–

During the year, no emoluments (2003: Nil) were paid by the Group to the directors or any of the five highest paid individuals (note 9) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors or any of the five highest paid individuals (note 9) have waived or agreed to waive any emoluments during the current and prior years.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2003: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2003: two) individuals are as follows:

	2004 $'000	2003 $'000
Salaries and other emoluments	**1,317**	952
Discretionary bonuses	**314**	–
Retirement scheme contributions	**36**	–
	1,667	952

The emoluments of the three (2003: two) individuals with the highest emoluments are within the following bands:

	2004 Number of individuals	2003 Number of individuals
$Nil – $1,000,000	**3**	2

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of $336,000 (2003: $Nil) which has been dealt with in the financial statements of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 DIVIDENDS

(a) Dividends attributable to the year

	2004 **$'000**	2003 $'000
Final dividend proposed after the balance sheet date of $0.013 per share	**6,500**	16,000

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

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

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

	2004 **$'000**	2003 $'000
Final dividends in respect of the previous financial year, approved and paid during the year	**16,000**	8,000

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

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

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2004 is based on the profit attributable to shareholders of $41,019,000 and the weighted average of 418,750,000 ordinary shares in issue during the year. The calculation of basic earnings per share for the year ended 31 March 2003 was based on the profit attributable to shareholders of $30,813,000 and on the 350,000,000 ordinary shares of the Company outstanding after the Group's Reorganisation and capitalisation issue (note 28).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

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

(c) Reconciliation

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**418,750,000**	–
Deemed issue of ordinary shares for no consideration	**1,543**	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**418,751,543**	–

13 CHANGES IN ACCOUNTING POLICIES

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 3(j). There is no effect on the Group's net profit and net assets for the years presented as a result of the adoption of this accounting policy.

14 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments, information of which is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(i) Pharmaceutical products

Manufacturing and sale of pharmaceutical products.

(ii) Trading

Trading of pharmaceutical products.

(iii) Health care products

Manufacturing and sale of health care products.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 SEGMENT REPORTING (Continued)

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

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 FIXED ASSETS

The Group

	Land and buildings $'000	Motor vehicles $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Total $'000
Cost:					
At 1 April 2003	24,035	1,867	25,661	2,918	54,481
Additions					
– through acquisition of a subsidiary	11,400	–	–	–	11,400
– others	3,463	637	1,085	1,024	6,209
Disposals	–	(252)	–	–	(252)
Transfer from construction in progress (note 16)	12,085	–	790	–	12,875
At 31 March 2004	50,983	2,252	27,536	3,942	84,713
Accumulated depreciation and impairment loss:					
At 1 April 2003	3,327	1,275	6,756	695	12,053
Charge for the year	899	186	2,273	455	3,813
Written back on disposal	–	(224)	–	–	(224)
At 31 March 2004	4,226	1,237	9,029	1,150	15,642
Net book value:					
At 31 March 2004	46,757	1,015	18,507	2,792	69,071
At 31 March 2003	20,708	592	18,905	2,223	42,428

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 FIXED ASSETS (Continued)

(a) An analysis of net book value of land and buildings is as follows:

	2004	2003
	$'000	$'000
Hong Kong		
– Long leases	**10,996**	11,200
Outside Hong Kong		
– Medium-term leases	**35,761**	9,508
	46,757	20,708

Long leases represent leases with an unexpired period not less than 50 years. Medium-term leases represent leases with an unexpired period less than 50 years but more than 10 years.

(b) The sluggish property market has caused the Group to assess the recoverable amount of the properties held. Based on that assessment, the carrying amount of the properties was written down by $804,000 during the year ended 31 March 2003. The estimate of recoverable amount was determined based on open market value.

(c) The following fixed assets are pledged to secure certain bank loans (note 22) and banking facilities granted to the Group:

	2004	2003
	$'000	$'000
Net book value of pledged assets:		
Buildings in Hong Kong	**6,856**	7,000

(d) The Group is in the process of applying for land use right certificates or building ownership certificates for certain land and buildings situated in the PRC with a net book value of approximately $27,383,000 (2003: $2,358,000). In the opinion of the directors there is no legal impediment in obtaining such certificates.

16 CONSTRUCTION IN PROGRESS

	The Group	
	2004	2003
	$'000	$'000
At 1 April	**4,520**	205
Additions		
– through acquisition of a subsidiary	**9,052**	–
– others	**60,967**	6,028
Transfer to fixed assets (note 15)	**(12,875)**	(1,713)
At 31 March	**61,664**	4,520

Construction in progress at 31 March 2004 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENT SECURITIES

	The Group	
	2004	2003
	$'000	$'000
Unlisted equity securities, at cost	**1,148**	–

18 INVESTMENT IN SUBSIDIARIES

	The Company	
	2004	2003
	$'000	$'000
Unlisted shares, at cost	**82,380**	–

The following list contains the particulars of subsidiaries. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by subsidiary	Principal activities
Jiwa Development Co. Ltd.	British Virgin Islands ("BVI")	100,000 shares of US$0.5 each	100%	–	Investment holding
Jiwa International Limited	Hong Kong	1,000 shares of $1,000 each	–	100%	Trading of pharmaceutical products
Jiwa Pharmaceuticals Limited	Hong Kong	1,000 shares of $1,000 each	–	100%	Investment holding
Tech-Medi Development Limited	Hong Kong	200 shares of $1,000 each	–	100%	Trading of health care products
Kunming Jida Pharmaceuticals Company Limited ("KJP") (Note (a))	PRC	Rmb71,710,000	–	65%	Manufacturing and trading of pharmaceutical products
Yunnan Jiwa Pharm-Tech Co., Ltd. ("YJPT") (Notes (a) and (b))	PRC	US$800,000	–	100%	Research and development of pharmaceutical products

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

(a) KJP and YJPT are limited companies incorporated in the PRC.

(b) On 7 February 2004, the Group acquired the entire equity interest in YJPT for a consideration of $6,240,000 satisfied in cash. The effect of the acquisition was not significant to the Group.

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the Group financial statements.

19 INVENTORIES

	The Group	
	2004	2003
	$'000	$'000
Raw materials	**8,566**	11,986
Work in progress	**3,930**	4,607
Finished goods	**5,649**	7,887
	18,145	24,480

None of the inventories is stated at net realisable value.

20 ACCOUNTS AND BILLS RECEIVABLE

Customers of existing products are generally granted with credit terms ranging from 30 days to 180 days. Customers that purchase new products being launched can be granted credit terms of up to 360 days. An ageing analysis of the accounts and bills receivable is as follows:

	The Group	
	2004	2003
	$'000	$'000
Within 3 months	**51,689**	36,335
Aged over 3 months but less than 6 months	**7,625**	4,914
Aged over 6 months	**2,298**	4,453
Less: Provision	**–**	(532)
	61,612	45,170
Bills receivable	**3,679**	–
	65,291	45,170

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 ACCOUNTS AND BILLS PAYABLE

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

	The Group	
	2004	2003
	$'000	$'000
Accounts payable		
– Due within 1 month or on demand	**2,237**	104
– Due after 1 month but within 3 months	**14,553**	16,145
– Due after 3 months but within 6 months	**–**	2,153
	16,790	18,402
Bills payable	**6,329**	7,009
	23,119	25,411

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

22 BANK LOANS AND OVERDRAFTS

At 31 March 2004, the bank loans and overdrafts were repayable as follows:

	The Group	
	2004	2003
	$'000	$'000
Within 1 year or on demand	**19,322**	31,477
After 1 year but within 2 years	**–**	4,342
After 2 years but within 5 years	**72,706**	–
After 5 years	**1,938**	–
	74,644	4,342
	93,966	35,819

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 BANK LOANS AND OVERDRAFTS (Continued)

At 31 March 2004, the bank loans and overdrafts were secured as follows:

	The Group	
	2004	2003
	$'000	$'000
Secured bank overdrafts	**–**	689
Bank loans		
– secured	**4,343**	6,828
– unsecured	**89,623**	28,302
	93,966	35,819

During the year ended 31 March 2003, banking facilities of certain subsidiary were secured by a legal charge over a property of the Group with a carrying value of $7,000,000 at 31 March 2003, certain properties owned by Jiwa Investment Limited, a related company, and personal guarantees given by the directors. On 9 October 2003, the banking facilities were replaced by new bank facilities secured by a legal charge over a property of the Group with a carrying value of $6,856,000 at 31 March 2004.

Such banking facilities of the Group totalling $21,000,000 (2003: $23,369,000) were utilised to the extent as set out below:

	The Group	
	2004	2003
	$'000	$'000
Letters of credit	**6,377**	10,652
Bank loans and overdrafts	**4,343**	7,517
	10,720	18,169

23 AMOUNTS DUE TO A RELATED COMPANY

Amounts due to a related company were unsecured, interest-free and repayable on demand.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 AMOUNTS DUE FROM DIRECTORS

The balance of amounts due from directors at 31 March 2004 is $Nil (2003: $Nil).

Amounts due from directors were unsecured, interest-free and repayable on demand.

The maximum outstanding balance of the amounts due from directors during the year were analysed as follows:

	The Group	
	2004	2003
	$'000	$'000
Lau Yau Bor	**–**	–
Chan Hing Ming	**–**	–
Lau Kin Tung	**–**	283

25 RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement scheme (the "Scheme") organised by the PRC municipal government whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on 25% of the payroll costs of the eligible employees. The PRC municipal government is responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Scheme.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

26 EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and consultants and advisers to the Group (subject to the eligibility requirements) to take up options to subscribe for shares of the Company representing up to a maximum of 10% of the shares in issue from time to time. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vested are exercisable within a period of five years from date of grant. Each option gives the holder the right to subscribe for one share.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 EQUITY COMPENSATION BENEFITS (Continued)

(a) Movements in share options

	2004 Number	2003 Number
At 1 April	**–**	–
Issued	**9,266,000**	–
Exercised	**–**	–
At 31 March	**9,266,000**	–
Options vested at 31 March	**9,266,000**	–

(b) Terms of unexpired and unexercised share options at the balance sheet date

Date granted	**Market price at the date of grant**	**Exercise period**	**Exercise price**	**2004 Number**	2003 Number
31 March 2004	$0.375	31 March 2004 to 30 March 2009	$0.377	**9,226,000**	–

(c) Details of share options granted during the year

Exercise period	**Exercise price**	**2004 Number**	2003 Number
31 March 2004 to 30 March 2009	$0.377	**9,226,000**	–

The consideration paid by each individual for the options granted was $1.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 INCOME TAX IN THE BALANCE SHEET

(a) All of the current tax payable and recoverable are expected to be settled within one year.

(b) Deferred tax assets of the Group recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Fixed assets $'000	Internally generated intangible assets $'000	Others $'000	Total $'000
Deferred tax arising from:				
At 1 April 2002	2,661	3,521	324	6,506
Charged to consolidated income statement	(116)	(102)	(109)	(327)
At 31 March 2003 and 1 April 2003	2,545	3,419	215	6,179
Charged to consolidated income statement	(86)	(177)	(215)	(478)
At 31 March 2004	2,459	3,242	–	5,701

28 SHARE CAPITAL

The Group

	2004 No. of shares	**2004** Amount $'000	2003 No. of shares	2003 Amount $'000
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	**2,200**	**2,200**	2,200	2,200
Capital elimination on consolidation	**(2,200)**	**(2,200)**	–	–
Issuance of shares (Note (iv))	**20,000,000**	**200**	–	–
Capitalisation issue (Note (v))	**330,000,000**	**3,300**	–	–
Shares issued under the placing and public offer (Note (vi))	**150,000,000**	**1,500**	–	–
	500,000,000	**5,000**	2,200	2,200

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 SHARE CAPITAL (Continued)

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 1981 of Bermuda (as amended) 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. Accordingly, the share capital of the Company at 31 March 2003 was $Nil.

(iii) Pursuant to the written resolution of the shareholders of the Company dated 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) Pursuant to the written resolutions of the shareholders of the Company passed on 24 September 2003, an amount of $3,300,000 standing to the credit of the Company's share premium account was applied in paying up in full at par 330,000,000 shares of $0.01 each for allotment and issue to persons whose names appeared on the register of members of the Company at the close of business on 24 September 2003 (as nearly as possible without involving fractions) to its or their then existing shareholdings in the Company.

(vi) On 14 October 2003, an aggregate of 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 of Hong Kong Limited. The Group raised approximately $57,409,000 (including interest income) net of related expenses from the share offer.

(vii) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 RESERVES

The Group

Movements in reserves

	Share premium	Contributed surplus	General reserve fund (Note (iii))	Enterprise expansion fund (Note (iii))	Capital reserve	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 April 2002	–	–	–	2,830	–	53,897	56,727
Dividend approved in respect of the previous year (note 11)	–	–	–	–	–	(8,000)	(8,000)
Profit for the year	–	–	–	–	–	30,813	30,813
Transfer to reserves (Note (iii))	–	–	25	25	–	(50)	–
At 31 March 2003	–	–	25	2,855	–	76,660	79,540
At 1 April 2003	–	–	25	2,855	–	76,660	79,540
Dividend approved in respect of the previous year (note 11)	–	–	–	–	–	(16,000)	(16,000)
Arising on reorganisation	–	2,000	–	–	–	–	2,000
Transfer to reserves (Note (iii))	–	–	17	17	–	(34)	–
Capitalisation of enterprise expansion fund (Note (ii))	–	–	–	(2,830)	2,830	–	–
Share premium from issuance of shares	70,500	–	–	–	–	–	70,500
Issuing costs	(14,591)	–	–	–	–	–	(14,591)
Capitalisation issue (note 28(v))	(3,300)	–	–	–	–	–	(3,300)
Profit for the year	–	–	–	–	–	41,019	41,019
At 31 March 2004	52,609	2,000	42	42	2,830	101,645	159,168

The Company

	Share premium	Contributed surplus	Accumulated loss	Total
	$'000	$'000	$'000	$'000
At 1 April 2002 and 2003	–	–	–	–
Arising on Reorganisation (Note (i))	–	82,180	–	82,180
Loss for the year	–	–	(336)	(336)
Share premium from issuance of shares	70,500	–	–	70,500
Capitalisation issue (note 28(v))	(3,300)	–	–	(3,300)
Issuing costs	(14,591)	–	–	(14,591)
At 31 March 2004	52,609	82,180	(336)	134,453

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 RESERVES (Continued)

Notes:

(i) Pursuant to the Reorganisation, 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 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 on 25 April 2003, KJP capitalised the enterprise expansion fund of Rmb3,000,000 to its registered share capital according to a board resolution dated 18 January 2003. The amount was recognised as capital reserve in the consolidated balance sheet.

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

30 ACQUISITION OF A SUBSIDIARY

On 7 February 2004, the Group acquired the entire equity interest of YJPT for a consideration of $6,240,000, satisfied in cash.

	2004 $'000
Net assets acquired	
Fixed assets	11,400
Construction in progress	9,052
Investment securities	1,148
Cash and cash equivalents	9,911
Prepayments and other receivables	8,476
Accrued expenses and other payables	(728)
Bank loans	(33,019)
Total purchase consideration paid for net identifiable assets and liabilities acquired, satisfied in cash	6,240
Less: Cash of the subsidiary acquired	(9,911)
Net cash inflow in respect of the acquisition of the subsidiary	(3,671)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**87,327**	41,920	**11,018**	–
Cash and cash equivalents in the balance sheet	**87,327**	41,920	**11,018**	–
Bank overdrafts (note 22)	**–**	(689)		
Cash and cash equivalents in the cash flow statement	**87,327**	41,231		

32 COMMITMENTS

(a) At 31 March 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2004	2003
	$'000	$'000
Within 1 year	**486**	800
After 1 year but within 5 years	**34**	113
	520	913

The Group leases a number of properties under operating leases. The leases run for periods from one year to two years. Certain leases include contingent rentals which are charged at fixed rates on gross sales receipts.

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

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:

(a) Recurring

	Note	2004 $'000	2003 $'000
Sales of goods:			
– Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	(i)	**24,366**	25,328
– Yunnan Jiwa Pharm Logistics Company Limited ("YJPL")	(ii)	**16,862**	6,165
Purchases of goods:			
– Yunnan Pharm Group	(i)	**436**	526
Rentals paid			
– Mr Lau Yau Bor	(iii)	**58**	79
– Jiwa Investment Limited	(iv)	**1,116**	651

Notes:

(i) The Group sold pharmaceutical products to Yunnan Pharm Group and purchased raw materials from Yunnan Pharm Group at a price calculated with reference to the price charged to other independent customers. Yunnan Pharmaceutical and Industrial Corporation Limited is the minority shareholder of KJP.

(ii) YJPL is controlled by certain directors of the Company. Historically, sales to YJPL were based on the prevailing market prices. Upon the listing of the Company on the Stock Exchange of Hong Kong Limited, sales to YJPL were at a price calculated with reference to the actual production cost incurred plus a margin.

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

(iv) Jiwa Investment Limited, which is controlled by certain 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 the prevailing market rate.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring

	Note	**2004** **$'000**	2003 $'000
Management fees	(i)	**–**	2,500
Transfer of property	(ii)	**–**	4,500
Research and development cost	(iii)	**–**	94
Assignment of accounts receivable	(iv)	**–**	12,421
Acquisition of a subsidiary	(v)	**6,240**	–

Notes:

(i) Management fees were paid to Jiwa Investment Limited, for administrative support and lease of office premises provided to the Group, which were determined at a cost basis. The management fee 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) The Group paid an amount of Rmb100,000 to YJPT which was previously controlled by certain directors of the Company. YJPT was subsequently acquired by the Group on 7 February 2004. YJPT assisted in certain research and development activities for a new product.

(iv) On 31 July 2002, YJPL, which is controlled by certain directors of the Company, assigned certain of its accounts receivable totalling Rmb13,166,000 to the Group in settlement of its liability to the Group. Such balance was fully settled as at 31 March 2004.

(v) On 7 February 2004, the Group acquired the entire equity interest of YJPT from Jiwa Pharm and Chemicals Limited, which is controlled by the directors of the Company, for a consideration of $6,240,000, satisfied in cash.

(vi) 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 personal guarantees given by certain directors. These legal charges were released on 9 October 2003.

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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS (Continued)

(c) Amounts due from/(to) related companies at 31 March 2004

(i) Amounts due from related companies

	The Group	
	2004	2003
	$'000	$'000
YJPL	**29**	–
Jiwa Pharm and Chemicals Limited	**1,585**	–
	1,614	–

(ii) Amounts due to a related company

	The Group	
	2004	2003
	$'000	$'000
Yunnan Pharmaceutical and Industrial Corporation Limited	**2,972**	8,585

(iii) Included under accounts and bills receivables:

	2004	2003
	$'000	$'000
Yunnan Pharm Group	**3,790**	1,693
YJPL	**17,635**	4,846
	21,425	6,539