

Chairman's Statement

Mr. Lau Yau Bor,
(Chairman)

Dear Shareholders,

On behalf of the Group, I am pleased to present the annual results for the year ended 31 March 2005.

RESULTS SUMMARY

For the financial year ended 31 March 2005 (the "Period"), the Group's turnover decreased by 11.7% over last year to approximately HK\$179.2 million. Likewise, gross profit decreased by 13.4% over last year to approximately HK\$92.9 million and operating profit decreased by 26.1% over last year to approximately HK\$43.5 million. Profit attributable to shareholders of the Group decreased by 28.1% over last year to HK\$29.5 million and earnings per share decreased to HK\$5.9 cents, down 39.8% from that of last year. This is in line with the pharmaceutical industry which saw profit declining in general this year. The Group's ability to mitigate negative impacts on profit was considered remarkable.

FINAL DIVIDEND

A final dividend of HK1.5 cents per share of the Company ("Share") is proposed to shareholders whose names appear on the register of members

on 8 August 2005 (Monday). The dividend will be payable on 25 August 2005 (Thursday). The Group has adhered to its dividend payout ratio of at least 25% and the proposed dividend this year actually increased by 15.4%, comparing to last year, even though profit has decreased this year.

THE PHARMACEUTICAL MARKET AND DEVELOPMENT OF THE GROUP

Opportunities arised in the regulated pharmaceutical market

- (1) The PRC pharmaceutical industry registered a growth rate of 14% against a growth rate of just over 7% recorded by the global pharmaceutical market in 2004, making it one of the fastest growing pharmaceutical markets globally. This growth is sustainable with a huge population of 1.3 billion people in the PRC coupled with an aging problem. The urbanization of the rural areas and the implementation of rural cooperative medical system in the PRC will make the rural pharmaceutical market a new area of growth for development of the domestic pharmaceutical industry. The Group has revised its strategies to capture the opportunities arised.

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- (2) In recent years, China has increased its regulation over the production of pharmaceutical products via continuous promulgation and improvement of pharmaceutical policies and regulations, including 1) the requirement for all pharmaceutical production enterprises to obtain Good Manufacturing Practice ("GMP") licenses from the State Food and Drug Administration of the PRC (the "SFDA"); 2) gradual implementation of the rural cooperative medical system and to gear up urbanization of medical services in rural areas; 3) relevant departments of the PRC government to continue to enforce austerity control over pharmaceuticals; and 4) deregulation of the commercial wholesale distribution of drugs. All these policies are favorable to the development of the Group. The Group had rapidly revised its strategy in response to these changes.
- (3) Such increased regulation by the PRC government over the pharmaceutical industry actually provides a healthy framework within which the pharmaceutical market can develop over the longer term. The improvement in the structure of pharmaceutical manufacturing enterprises, together with the abundance of research and development talents, the availability of quality medical raw materials and favourable production conditions for drug preparation are all factors pushing the PRC pharmaceutical industry to develop in line with international practice. Development made by the Group over the past 3 years have laid a solid foundation for the Group to benefit from this policy.
- (4) In addition, increased regulation by the PRC government over the pharmaceutical industry will gradually eliminate small size pharmaceutical enterprises who lack competitive edges in technology, quality and price. Meanwhile, such increased regulation also elevates the barrier of entry into the PRC pharmaceutical market. As a result, the Group would enhance its corporate strength, product quality and markets by leveraging on the economies of scale and synergy via suitable acquisition, merger and reorganization.

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(5) In the past decade, the Group has placed substantial efforts in introducing pharmaceutical products with good market potential into the PRC market. However, the importance of traditional Chinese medicines has gained increasing recognition internationally. This coupled with the continuing growth in the PRC pharmaceutical industry with population of 1.3 billion and the huge and challenging international market means that the Group is adjusting its strategy to engage in both Chinese and Western medicines. As a result of this, the Group acquired 23.81% of Yunnan Pharmaceutical Materials Limited (雲南藥材有限公司), a subsidiary of China Pharmaceutical Materials Group Company (中國藥材集團公司) to further develop its Chinese medicine business.

Short-term impact of price-cut policy

In June 2004, China State Development and Reform Commission (the "CSDRC") ordered to scale down the retail price of antibiotics with an average reduction in price of approximately 30% for 24 types of antibiotics. The Group's 13 types of products (46% of the total products) were therefore affected, and as a result, this year's turnover decreased by approximately 11.7% as compared with that of last year.

However, I believe the impact of such price-cut policy to the Group should be short lived. In fact, the Group changes the product mix swiftly, thus reducing the reliance on anti-infectious products.

Long-term strategy

Focusing on the development of five therapeutic categories of pharmaceutical products

In view of the PRC's reform of the pharmaceutical industry and the changes towards the market economy system, after conducting sufficient analysis of short-term, mid-term and long-term development of the international and the PRC pharmaceutical markets, the management of the

Group has adjusted its product mix, including anti-infectious, gastro-intestinal and musculo-skeletal system, cerebro-cardiovascular, and anti-depressant and psychiatric disorder. It is expected that these categories will gradually account for a higher percentage of the Group's overall turnover in the future as we believe that these medicines are important to cure the serious disease of human.

Cerebro-cardiovascular drugs have become the most widely used drugs in the world pharmaceutical market. The aging population renders a continuous increase in people suffering from cerebro-cardiovascular problems. According to the World Health Organisation ("WHO"), osteoarthritis, cerebro-cardiovascular diseases and cancer are the three major causes of death. According to the statistics provided by Southern Economic Research Institute of the PRC, cerebro-cardiovascular drugs are the second most widely used drugs in the PRC in 2003, with approximately 14% share of the drug's market.

Statistics showed the US government had spent huge sums of money subsidizing anti-depression treatments annually. As the medical world has deeper understanding and better diagnosis of depression, anti-depressant has already become a widely used drugs globally. In the PRC, the Ministry of Health has classified depression as the focal point for the development of preventive and curative measurements in the coming years. Production of this type of drugs in the PRC is now just entering into an initial growing phase and it will harbour great potential for development.

According to relevant statistics of the world and PRC authorities, together with analysis made by the Group's R&D staff, I believe that cerebro-cardiovascular, anti-depressant and psychiatric disorder drugs have great market potential, high-technological requirements and good return. Thus, it would provide great impetus for the operation and return to the Group.

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Expanding International market

The Group pursues a prudent acquisition and merger strategy as one of the means to achieve its long term objectives.

In November 2004, the Group entered into a cooperative agreement with Rintech Inc., a US company which is engaged in R&D of pharmaceutical bulk materials, to establish Jiwa Rintech Holdings Limited ("Jiwa Rintech"). The purpose of this co-operation is to allow the Group to acquire production capability in pharmaceutical raw materials for export to Europe and the United States of America ("USA"). In May 2005, Jiwa Rintech entered into a Capital Injection Agreement in the PRC which gives the Group control over the PRC entity, now renamed as Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP"). The rationale in this acquisition is that the Group would gain control immediately of a manufacturing plant owned by JJRP. The plant can be modified quickly, so as to obtain certification issued by SFDA (PRC) and FDA (USA) to start formal production for export to the USA market. This development will also become a new area of growth for turnover and profit of the Group.

Focus on the PRC market with an eye on the global market

It is widely believed that China and India will eventually become the world's two largest production bases for pharmaceutical raw materials. This is due to their competitive edges in low operating costs, abundant supply of resources, highly skilled scientific research personnel, as well as the existence of a huge domestic market. It is thus of vital importance for the Group to develop its own manufacturing capability in pharmaceutical raw materials for both the PRC and international market.

Having a FDA (USA) approved pharmaceutical plant would enhance the Group's image in the pharmaceutical industry, while developing an export market in the USA would assist in diversifying the Group's dependence on the PRC market. Development of the US market would also serve as a platform for recruiting and attracting top professional researchers in future, providing the Group a better position to develop new products with world-wide patents.

APPRECIATION

The Group was listed on the main board of The Stock Exchange of Hong Kong Limited on 14 October 2003. The successful listing provides a new platform for the expansion and development of the Group.

To cope with the development of the Group, we are constantly on the look out for talents, people who can assist the Group in achieving its objectives. The Group believes that the pool of capable employees is not only our most important intangible assets, but also the driver to its success. I take this opportunity on behalf of the board of directors to express our gratitude to the management and staff who have worked hard to contribute to the growth of the Group. In addition, I extend my sincere appreciation to every shareholder for their continuous support to the Group. Last but not least, the Group will continue to enhance its competitiveness and endeavour to increase its shareholders' value. It is my pleasure to achieve it and I am confident of accomplishing the task.

Lau Yau Bor
Chairman

Hong Kong, 5 July 2005