

Notes to the Financial Statements

For the year ended 31 March 2005

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in manufacture, sale and trading of pharmaceutical and health care products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 33 to 70 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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. The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at gross amount less accumulated amortisation and impairment losses.

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Notes to the Financial Statements

For the year ended 31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(d) Subsidiaries (Continued)**

In the Company's balance sheet, subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(e) Property, plant and equipment**(i) Depreciation**

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Land and buildings	20-50 years
Motor vehicles	3 years
Plant and machinery	5-15 years
Furniture, fixtures and equipment	5 years

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(f) Construction in progress

Construction in progress is stated at cost less impairment losses. The cost comprises construction costs including direct materials, labour, contractors' fees, interest expenses, overheads and cost of plant and machineries attributable to bringing the production facilities to its present condition.

When the construction or installation is completed, the relevant cost of construction in progress is transferred to the appropriate categories of property, plant and equipment.

(g) Investment securities

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less impairment losses. Impairment losses are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. Impairment losses are charged to the income statement.

Notes to the Financial Statements

For the year ended 31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(g) Investment securities (Continued)**

The gain or loss on disposal of investment securities, being the difference between the net sales proceeds and the carrying amount of the securities, is accounted for in the period in which the disposal occurs.

(h) Intangible assets

Intangible assets representing technical know-how acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the exclusive rights protection period.

Expenditure on research activities and other development costs are recognised as expenses as incurred.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(j) Impairment

The carrying amounts of the Group's non-current assets except for deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For investment securities carried at cost, their carrying amounts are reviewed at the balance sheet date in order to assess whether the fair value of such securities has declined below the carrying amount. If such a decline occurs the carrying amount of the investment securities is reduced to the fair value unless there is evidence that the decline is temporary. For intangible assets and construction in progress that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Financial Statements

For the year ended 31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment (Continued)

- (ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) 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.

Notes to the Financial Statements

For the year ended 31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(k) Income tax (Continued)**

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

- (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 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.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) Employee benefits

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

For the year ended 31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Recognition of revenue

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.

(o) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(p) Borrowing costs

Costs incurred on borrowings that are directly attributable to the construction of Good Manufacturing Practice ("GMP") production facility in Kunming are capitalised as part of the cost of the factory building up to the completion of its construction. Any other borrowing costs are charged to the income statement in the period in which they are incurred.

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Notes to the Financial Statements

*For the year ended 31 March 2005***2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(r) 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.

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.

(s) 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.

(t) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Notes to the Financial Statements

For the year ended 31 March 2005

3. 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 returns and discounts.

4. OTHER REVENUE AND NET INCOME/(LOSS)

	2005 HK\$'000	2004 HK\$'000
Other revenue		
Interest income	488	269
Others	204	118
	692	387
Other net income/(loss)		
Net exchange loss	(66)	(126)
Net (loss)/gain on disposal of property, plant and equipment	(84)	28
Net income from insurance claims	227	–
	77	(98)

5. PROFIT BEFORE TAXATION

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

	2005 HK\$'000	2004 HK\$'000
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	4,579	3,286
Less: Borrowing costs capitalised into construction in progress	(927)	(2,013)
	3,652	1,273
Annual capitalization rate of borrowing costs	5.0%	5.0%
(b) Staff costs:		
Salaries, wages and other benefits	16,271	14,989
Contributions to defined contribution retirement plans	1,135	947
	17,406	15,936

Notes to the Financial Statements

For the year ended 31 March 2005

5. PROFIT BEFORE TAXATION (Continued)

Note:

Staff costs include operating lease charges in respect of premises totalling HK\$1,398,000 (2004: HK\$810,000) which are also included in total operating lease charges in respect of premises disclosed in Note 5(c) below.

	2005 HK\$'000	2004 HK\$'000
(c) Other items:		
Costs of inventories sold (i)	84,440	93,620
Auditors' remuneration (ii)	390	855
Depreciation	6,320	3,813
Amortisation of goodwill	38	–
Amortisation of intangible assets	17	–
Reversal of impairment loss on land and building	(804)	–
Operating lease charges in respect of premises		
– minimum lease payments	2,472	1,806
– contingent rental	–	134
Research and development costs (iii)	2,285	1,715
Write back of provision for bad and doubtful debts	–	(532)

Notes:

- (i) Cost of inventories sold includes HK\$5,618,000 (2004: HK\$4,807,000) 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) Auditors' remuneration includes HK\$90,000 relating to under-provision of last year's audit fee.
- (iii) Research and development costs comprise staff costs of HK\$22,000 (2004: HK\$289,000) which are also included in the total amount of staff costs disclosed above.

Notes to the Financial Statements

For the year ended 31 March 2005

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	2005 HK\$'000	2004 HK\$'000
Current tax – provision for Hong Kong profits tax		
Tax for the year	4,760	4,401
Over provision in respect of prior years	(18)	(5)
	4,742	4,396
Current tax – outside Hong Kong		
Provision for PRC income tax	1,688	2,829
Tax refund	(1,022)	(2,649)
	666	180
Deferred tax		
Current year (Note 24)	265	478
	5,673	5,054

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit of the Group's operations in Hong Kong 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 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.

Pursuant to notices issued by the local tax bureau, PRC income tax of HK\$1,022,000 (2004: HK\$2,649,000) was refunded to KJP's foreign investor in relation to the reinvestment of profits in the PRC in accordance with the relevant tax rules and regulations.

Notes to the Financial Statements

For the year ended 31 March 2005

6. TAXATION (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Profit before tax	39,823	57,582
Tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	5,662	7,523
Tax effect of non-deductible expenses	151	98
Tax effect of non-taxable revenue	(169)	(48)
Tax losses not recognised as deferred tax assets	866	–
Tax effect of temporary differences not recognised	(77)	–
Tax refund	(1,022)	(2,649)
Others	280	135
Over provision in prior years	(18)	(5)
Actual tax expense	5,673	5,054

7. DIRECTORS' REMUNERATION

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

	2005 HK\$'000	2004 HK\$'000
Fees	218	160
Salaries and other emoluments	3,162	2,460
Retirement scheme contributions	22	21
	3,402	2,641

Included in the directors' remuneration were fees of HK\$218,000 (2004: HK\$160,000) paid to independent non-executive directors during the year.

Three directors were 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 note 28.

Notes to the Financial Statements

For the year ended 31 March 2005

7. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors is within the following bands:

	2005 Number of directors	2004 Number of directors
HK\$Nil-HK\$1,000,000	4	4
HK\$1,000,000-HK\$1,500,000	1	1
HK\$1,500,000-HK\$2,000,000	1	–

During the year, no emoluments (2004: Nil) were paid by the Group to the directors or any of the five highest paid individuals (note 8) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have waived or agreed to waive any emoluments during the current and prior years.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2004: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2004: three) individuals are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other emoluments	1,376	1,317
Discretionary bonuses	269	314
Retirement scheme contributions	36	36
	1,681	1,667

The emoluments of the three (2004: three) individuals with the highest emoluments are within the following bands:

	2005 Number of individuals	2004 Number of individuals
HK\$Nil-HK\$1,000,000	3	3

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of HK\$19,649,000 (2004: loss of HK\$336,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 March 2005

10. DIVIDENDS

- (a) Dividends attributable to the year

	2005 HK\$'000	2004 HK\$'000
Final dividend proposed after the balance sheet date of HK\$0.015 per share (2004: HK\$0.013 per share)	7,500	6,500

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

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

	2005 HK\$'000	2004 HK\$'000
Final dividend in respect of the previous financial year approved and paid during the year of HK\$0.013 per share	6,500	16,000

Prior to listing, on 14 July 2003, certain subsidiaries of the Group declared and approved final dividend of HK\$16,000,000 in respect of the year ended 31 March 2003 to the then shareholders of these subsidiaries.

The dividend per share and the number of shares ranking for dividend for the year ended 31 March 2004 are not presented above as such information is not meaningful having regard to the consolidated financial statements.

11. EARNINGS PER SHARE

- (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$29,511,000 (2004: HK\$41,019,000) and on 500,000,000 ordinary shares (2004: the weighted average number of 418,750,000 shares) in issue during the year.

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$29,511,000 (2004: HK\$41,019,000) and the 500,221,383 ordinary shares (2004: the weighted average number of 418,751,543 shares) in issue during the year, after adjusting the effect of all dilutive potential shares under the Company's share option scheme.

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11. EARNINGS PER SHARE (Continued)

(c) Reconciliation

	2005	2004
	Number of	Number of
	shares	shares
Number of ordinary shares used in calculating basic earnings per share	500,000,000	418,750,000
Deemed issue of ordinary shares for no consideration	221,383	1,543
Number of ordinary shares used in calculating diluted earnings per share	500,221,383	418,751,543

12. 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.

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12. SEGMENT REPORTING (Continued)

	Pharmaceutical products		Trading		Health care products		Inter-segment elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	109,712	146,336	60,658	48,093	8,856	8,521	-	-	179,226	202,950
Inter-segment revenue	6,578	4,702	-	-	-	-	(6,578)	(4,702)	-	-
Total	116,290	151,038	60,658	48,093	8,856	8,521	(6,578)	(4,702)	179,226	202,950
Segment results	30,096	43,429	19,122	18,123	1,624	2,299	(6,578)	(4,702)	44,264	59,149
Unallocated operating income and expenses									(789)	(294)
Profit from operations									43,475	58,855
Finance costs									(3,652)	(1,273)
Taxation									(5,673)	(5,054)
Minority interests									(4,639)	(11,509)
Profit attributable to shareholders									29,511	41,019
Depreciation for the year	5,323	3,366	900	428	97	19	-	-	6,320	3,813
Amortisation of intangible assets	17	-	-	-	-	-	-	-	17	-
Unallocated amortisation of goodwill	-	-	-	-	-	-	-	-	38	-
Impairment loss written back	-	-	(804)	-	-	-	-	-	(804)	-
Segment assets	248,193	182,623	73,056	44,939	2,358	1,151	-	-	323,607	228,713
Unallocated assets									19,660	98,721
Total assets									343,267	327,434
Segment liabilities	17,442	17,478	12,681	9,131	318	399	-	-	30,441	27,008
Unallocated liabilities									89,690	99,136
Total liabilities									120,131	126,144
Capital expenditure incurred during the year	24,355	87,127	998	501	558	-	-	-	25,911	87,628

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

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13. PROPERTY, PLANT AND EQUIPMENT**The Group**

	Land and buildings	Motor vehicles	Plant and machinery	Furniture, fixtures and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 April 2004	50,983	2,252	27,536	3,942	84,713
Additions	10,780	–	79	2,467	13,326
Disposals	–	–	(356)	–	(356)
Transfer from construction in progress (Note 14)	48,817	–	690	–	49,507
At 31 March 2005	110,580	2,252	27,949	6,409	147,190
Accumulated depreciation and impairment loss					
At 1 April 2004	4,226	1,237	9,029	1,150	15,642
Charge for the year	2,851	438	1,811	1,220	6,320
Impairment loss written back	(804)	–	–	–	(804)
Written back on disposal	–	–	(252)	–	(252)
At 31 March 2005	6,273	1,675	10,588	2,370	20,906
Net book value					
At 31 March 2005	104,307	577	17,361	4,039	126,284
At 31 March 2004	46,757	1,015	18,507	2,792	69,071

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Hong Kong – Long leases	11,595	10,996
Outside Hong Kong – Medium-term leases	92,712	35,761
	104,307	46,757

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 recovery of the property market has caused the Group to reassess the recoverable amount of the properties held. Based on that assessment, impairment loss of HK\$804,000 previously made for the year ended 31 March 2003 was written back in the year 2005. The estimate of recoverable amount was determined based on directors' estimate of the open market value.
- (c) Upon repayment of the Group's mortgage loans, as at 31 March 2005, none of the Group's property, plant and equipment is pledged to secure any of the bank loans and banking facilities (note 22).

	2005 HK\$'000	2004 HK\$'000
Net book value of pledged assets:		
Land and buildings in Hong Kong	–	6,856

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14. CONSTRUCTION IN PROGRESS

	The Group	
	2005	2004
	HK\$'000	HK\$'000
At 1 April	61,664	4,520
Additions		
– through acquisition of a subsidiary	–	9,052
– others	12,585	60,967
Transfer to property, plant and equipment (Note 13)	(49,507)	(12,875)
At 31 March	24,742	61,664

Construction in progress at 31 March 2005 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming.

15. INVESTMENT SECURITIES

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Unlisted equity securities in PRC, at cost	1,148	1,148

16. GOODWILL

	The Group
	HK\$'000
Opening net book amount, at 1 April 2004	–
Addition	918
Amortisation charge (Note 5(c))	(38)
Closing net book amount, at 31 March 2005	880
At 31 March 2005	
Gross	918
Accumulated amortisation	(38)
Net book amount	880
At 31 March 2004	
Gross	–
Accumulated amortisation	–
Net book amount	–

The goodwill, which arose from the 5% further acquisition of KJP, a subsidiary of the Company, is amortised on a straight line basis over its estimated useful life of 10 years.

Notes to the Financial Statements

For the year ended 31 March 2005

17. INTANGIBLE ASSETS

The Group

	Technical know-how
	HK\$'000
Opening net book amount, at 1 April 2004	–
Addition	613
Amortisation charge (Note 5(c))	(17)
Closing net book amount, at 31 March 2005	596
At 31 March 2005	
Cost	613
Accumulated amortisation	(17)
Net book amount	596
At 31 March 2004	
Cost	–
Accumulated amortisation	–
Net book amount	–

18. INVESTMENT IN SUBSIDIARIES

	The Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	82,380	82,380

Notes to the Financial Statements

For the year ended 31 March 2005

18. INVESTMENT IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries as at 31 March 2005 are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			held by the Company	held by subsidiary	
Jiwa Development Co. Ltd.	British Virgin Islands ("BVI")	100,000 ordinary shares of US\$0.5 each	100%	–	Investment holding
Jiwa International Limited	Hong Kong	1,000 ordinary shares of HK\$1,000 each	–	100%	Trading of pharmaceutical products
Jiwa Pharmaceuticals Limited	Hong Kong	1,000 ordinary shares of HK\$1,000 each	–	100%	Investment holding
Tech-Medi Development Limited	Hong Kong	200 ordinary shares of HK\$1,000 each	–	100%	Trading of health care products
Kunming Jida Pharmaceutical Company Limited ("KJP")	PRC	RMB86,710,000	–	70%	Manufacturing and trading of pharmaceutical products
Yunnan Jiwa Pharm-Tech Co., Ltd ("YJPT")	PRC	US\$800,000	–	100%	Research and development of pharmaceutical products
Jiwa Rintech Holdings Limited ("Jiwa Rintech")	BVI	10 ordinary shares of US\$1 each	–	80%	Investment holding

All of these are controlled subsidiaries as defined under note 2(d) and have been consolidated into the Group's financial statements.

Notes to the Financial Statements

For the year ended 31 March 2005

19. INVENTORIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	10,233	8,566
Work in progress	7,958	3,930
Finished goods	11,096	5,649
	29,287	18,145

None of the inventories is stated at net realisable value.

20. ACCOUNTS AND BILLS RECEIVABLE

Customers are generally granted with credit terms ranging from 30 days to 180 days. An ageing analysis of the accounts and bills receivable is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Within 3 months	63,293	36,732
Aged over 3 months but less than 6 months	894	3,327
Aged over 6 months	496	128
	64,683	40,187
Bills receivable	–	3,679
	64,683	43,866

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

21. AMOUNTS DUE FROM RELATED COMPANIES

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

Notes to the Financial Statements

For the year ended 31 March 2005

22. BANK LOANS

At 31 March 2005, the bank loans were repayable as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within 1 year or on demand	42,453	19,322
After 1 year but within 2 years	47,170	–
After 2 years but within 5 years	–	72,706
After 5 years	–	1,938
	47,170	74,644
	89,623	93,966

At 31 March 2005, the bank loans and overdrafts were as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Bank loans		
– secured	–	4,343
– unsecured	89,623	89,623
	89,623	93,966

At 31 March 2004, legal charge over a property of the Group with a carrying value of HK\$6,856,000 was used to secure banking facilities of the Group totalling HK\$21,000,000. The charge over the Group's property has been released in the year 2005.

23. ACCOUNTS AND BILLS PAYABLE

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

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Accounts payable		
– Due within 1 month or on demand	12,476	2,237
– Due after 1 month but within 3 months	1,849	14,553
– Due after 3 months but within 6 months	3,627	–
	17,952	16,790
Bills payable	4,983	6,329
	22,935	23,119

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

Notes to the Financial Statements

For the year ended 31 March 2005

24. DEFERRED TAX

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

	Accelerated tax depreciation HK\$'000	Internally generated intangible assets HK\$'000	Others HK\$'000	Total HK\$'000
Deferred tax arising from:				
At 1 April 2003	2,545	3,419	215	6,179
Charged to consolidated income statement	(86)	(177)	(215)	(478)
At 31 March and 1 April 2004	2,459	3,242	–	5,701
Charged to consolidated income statement	(176)	(89)	–	(265)
At 31 March 2005	2,283	3,153	–	5,436

The Group has not recognised deferred tax assets in respect of unused tax losses of HK\$866,000 (2004: HK\$Nil) because of the unpredictability of future profit streams. These tax losses will expire in 2009.

25. SHARE CAPITAL

	2005		2004	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised: Ordinary shares of HK\$0.01 each	1,000,000,000	10,000	1,000,000,000	10,000
Issued and fully paid: At 1 April (i)	500,000,000	5,000	2,200	2,200
Capital elimination on consolidation (i)	–	–	(2,200)	(2,200)
Issuance of shares (iv)	–	–	20,000,000	200
Capitalisation issue (v)	–	–	330,000,000	3,300
Share issued under the placing and public offer (vi)	–	–	150,000,000	1,500
At 31 March	500,000,000	5,000	500,000,000	5,000

Notes to the Financial Statements

For the year ended 31 March 2005

25. SHARE CAPITAL (Continued)

Notes:

- (i) Pursuant to the reorganisation of the Company and its subsidiaries, the Company became the holding company of the Group on 24 September 2003. 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 HK\$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 HK\$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 HK\$100,000 to HK\$10,000,000 by the creation of an additional 990,000,000 shares of HK\$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 HK\$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 HK\$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 HK\$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 HK\$0.01 each were issued and offered for subscription at a price of HK\$0.48 per share upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. The Group raised approximately HK\$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 to the Financial Statements

For the year ended 31 March 2005

26. RESERVES

The Group

	Share premium	Contributed surplus	General reserve fund (iii)	Enterprise expansion fund (iii)	Revaluation adjustment (iv)	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	-	-	25	2,855	-	-	76,660	79,540
Dividend approved in respect of the previous year (Note 10(b))	-	-	-	-	-	-	(16,000)	(16,000)
Arising on reorganisation	-	2,000	-	-	-	-	-	2,000
Transfer to reserve (iii)	-	-	17	17	-	-	(34)	-
Capitalisation of enterprise expansion fund (ii)	-	-	-	(2,830)	-	2,830	-	-
Share premium from issuance of shares	70,500	-	-	-	-	-	-	70,500
Issuing costs	(14,591)	-	-	-	-	-	-	(14,591)
Capitalisation issue (Note 25(v))	(3,300)	-	-	-	-	-	-	(3,300)
Profit for the year	-	-	-	-	-	-	41,019	41,019
At 31 March and 1 April 2004	52,609	2,000	42	42	-	2,830	101,645	159,168
Dividend approved in respect of the previous year (Note 10(b))	-	-	-	-	-	-	(6,500)	(6,500)
Transfer to reserve (iii)	-	-	20	21	-	-	(41)	-
Revaluation adjustment (iv)	-	-	-	-	(320)	-	-	(320)
Profit for the year	-	-	-	-	-	-	29,511	29,511
At 31 March 2005	52,609	2,000	62	63	(320)	2,830	124,615	181,859

Retained profits represent:	2005 HK\$'000	2004 HK\$'000
Final dividend proposed (Note 10(a))	7,500	6,500
Others	117,115	95,145
At 31 March	124,615	101,645

Notes to the Financial Statements

For the year ended 31 March 2005

26. RESERVES (Continued)**The Company**

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	–	–	–	–
Arising on reorganisation (i)	–	82,180	–	82,180
Loss for the year	–	–	(336)	(336)
Share premium from issuance of shares	70,500	–	–	70,500
Capitalisation issue (Note 25(v))	(3,300)	–	–	(3,300)
Issuing costs	(14,591)	–	–	(14,591)
At 31 March and 1 April 2004	52,609	82,180	(336)	134,453
Dividend approved in respect of the previous year (Note 10(b))	–	–	(6,500)	(6,500)
Profit for the year	–	–	19,649	19,649
At 31 March 2005	52,609	82,180	12,813	147,602

Retained profits represent:	2005 HK\$'000	2004 HK\$'000
Final dividend proposed (Note 10(a))	7,500	6,500
Others	5,313	(6,836)
At 31 March	12,813	(336)

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.
- (iv) Revaluation adjustment represents the fair value adjustment which is attributed to the 5% increase in the shareholding of KJP. It is the portion of revaluation difference that arose since the original acquisition date that is attributable to the increase in the Group's interest. This reserve adjustment will be recognised in the income statement upon the earlier of the disposal of the subsidiary or the disposal by the subsidiary of the assets to which it relates.

Notes to the Financial Statements

For the year ended 31 March 2005

27. 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 HK\$20,000. Contributions to the scheme vest immediately.

28. 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.

(a) Movements in share options

	2005	2004
	Number	Number
At 1 April	9,266,000	–
Issued	20,000,000	9,266,000
Exercised	–	–
Cancelled	(12,266,000)	–
At 31 March	17,000,000	9,266,000
Option vested at 31 March	17,000,000	9,266,000

Notes to the Financial Statements

For the year ended 31 March 2005

28. EQUITY COMPENSATION BENEFITS (Continued)

(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	2005 Number	2004 Number
31 March 2004	HK\$0.375	31 March 2004 to 30 March 2009	HK\$0.377	2,000,000 (Note (i))	9,266,000
4 May 2004	HK\$0.295	4 May 2004 to 3 May 2009	HK\$0.310	4,000,000	–
29 December 2004	HK\$0.330	29 December 2004 to 28 December 2009	HK\$0.336	11,000,000	–
				17,000,000	9,266,000

Note (i): 7,266,000 share options were cancelled on 28 April 2004.

(c) Details of share options granted during the year

Exercise period	Exercise price	2005 Number	2004 Number
31 March 2004 to 30 March 2009	HK\$0.377	–	9,266,000
1 April 2004 to 31 March 2009 (Note (i))	HK\$0.400	5,000,000	–
4 May 2004 to 3 May 2009	HK\$0.310	4,000,000	–
29 December 2004 to 28 December 2009	HK\$0.336	11,000,000	–
		20,000,000	9,266,000

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

Note (i): This share option was cancelled on 21 December 2004.

29. ACQUISITION OF A SUBSIDIARY

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

	2004 HK\$'000
Net assets acquired	
Property, plant and equipment	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 to the Financial Statements

For the year ended 31 March 2005

30. COMMITMENTS

- (a) At 31 March 2005, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within 1 year	1,882	486
After 1 year but within 5 years	857	34
	2,739	520

The Group leases a number of properties under operating leases. The leases run for periods from one year to two years.

The Company had no operating lease commitment as at 31 March 2005 (2004: Nil).

- (b) Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Contracted for		
– acquisition of property, plant and equipment	–	16,791
– acquisition of technical know-how	1,226	1,402
	1,226	18,193
Authorised but not contracted for		
– acquisition of property, plant and equipment	5,817	–
	7,043	18,193

The Company had no capital commitment as at 31 March 2005 (2004: Nil).

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For the year ended 31 March 2005

31. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:

(a) Recurring

	Note	2005 HK\$'000	2004 HK\$'000
Sales of goods:			
– Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries (“Yunnan Pharm Group”)	(i)	24,385	24,366
– Yunnan Jiwa Pharm Logistics Company Limited (“YJPL”)	(ii)	2,592	16,862
Purchase of goods:			
– Yunnan Pharm Group	(i)	–	436
– YJPL	(ii)	312	–
Rentals paid:			
– Mr Lau Yau Bor	(iii)	82	58
– Jiwa Investment Limited	(iv)	1,977	1,116

Notes:

- (i) The Group sold pharmaceutical products to 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. Sales to and purchases from YJPL were at prices calculated with reference to the actual production costs 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.

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For the year ended 31 March 2005

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring

	Note	2005 HK\$'000	2004 HK\$'000
Acquisition of a subsidiary	(i)	–	6,240
Service fee	(ii)	234	–

Notes:

- (i) 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 HK\$6,240,000, satisfied in cash.
- (ii) Service fee was paid to Rintech Inc, the minority shareholder of a subsidiary, Jiwa Rintech, in accordance with the joint venture agreement. Settlement of the said service fee was satisfied by 2 ordinary shares of US\$1 each of Jiwa Rintech.

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.

(c) Amounts due from/(to) related companies at 31 March 2005

(i) Amounts due from related companies

	The Group	
	2005 HK\$'000	2004 HK\$'000
Yunnan Jiwa Pharm Logistics Company Limited	7,925	17,664
Yunnan Pharm Group	–	3,790
Yunnan Pharmaceutical and Industrial Corporation Limited	2,758	–
Jiwa Pharm and Chemicals Limited	–	1,585
	10,683	23,039

(ii) Amount due to a related company

	The Group	
	2005 HK\$'000	2004 HK\$'000
Yunnan Pharmaceutical and Industrial Corporation Limited	–	2,972

Notes to the Financial Statements

For the year ended 31 March 2005

32. POST BALANCE SHEET EVENTS

- (a) Sale of a wholly owned subsidiary, YJPT to a 70% owned subsidiary, KJP

Pursuant to a share transfer agreement entered into between YJPT, a wholly owned subsidiary of the Group, and KJP, a 70% owned subsidiary of the Group, on 20 December 2004, YJPT was sold to KJP for a consideration of approximately RMB17.93 million (equivalent to approximately HK\$16.9 million). The share transfer was approved by the Kunming National High Tech Industry Development Zone Administration Bureau of the PRC on 28 January 2005 and a new business licence was issued by The State Administration of Industry and Commerce of the PRC on 5 February 2005. Sale proceeds was received from KJP on 20 April 2005, which is taken as the date of completion of the transaction. The rationale for this transaction is to improve operating efficiencies at the plant level. The directors are currently assessing the impact of this transaction and an estimate of the gain or loss on this transaction cannot be made at this stage.

- (b) Joint venture in manufacturing pharmaceutical bulk materials in the PRC

On 8 December 2004, the Group incorporated a 80% held subsidiary, Jiwa Rintech in the British Virgin Islands, with the remaining 20% held by a United States ("U.S.") company Rintech Inc. Capital contributions to Jiwa Rintech would be made in two stages resulting ultimately in a paid up capital of US\$3 million. On 25 May 2005, the Group's 80% subsidiary Jiwa Rintech entered into a Capital Injection Agreement with three independent parties in the PRC to inject RMB24 million (or approximately HK\$22.6 million) representing 80% of capital of, Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JRPCL"), a company incorporated in the PRC as a sino-foreign equity joint venture with limited liabilities. The injection was made on 8 June 2005. The purpose of the investment in JRPCL is to manufacture pharmaceutical bulk materials in the PRC mainly for export to the U.S. Details of the agreement can be found in the Company's announcement dated 25 May 2005 and the Company's circular to its shareholders dated 13 June 2005.

- (c) Investment in Yunnan Pharmaceutical Materials Limited ("YPML")

On 26 May 2005, the Group entered into a share transfer agreement with the Employees' Shareholding Association of YPML (the "vendor") to purchase a 23.81% interest in YPML from the vendor for a consideration of RMB5.3 million (approximately HK\$5 million). The purpose of the investment in YPML is to enhance the Group's research and development capability in the area of traditional Chinese medicines. Details of the agreement can be found in the Company's announcement dated 26 May 2005 and the Company's circular to its shareholders dated 13 June 2005.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 33 to 70 were approved by the board of directors on 5 July 2005.