BUSINESS REVIEW

Product sales

The Group sold approximately 31 types of drugs during the Period. These drugs belong mainly to the anti-infectious, musculo-skeletal and gastro-intestinal categories of drugs, which accounted for about 41.4%, 32.7% and 19.4% of the total sales, respectively; these products were mainly produced and sold by the Group's production corporation in Kunming, PRC ("Pharmaceutical Products"). Five new special products were imported into China via agency agreements between the Group and major European pharmaceutical corporations ("Trading Pharmaceutical Products"). In addition, the Group produced about twelve kinds of Chinese healthcare products ("Health Care Products"); the sales of which was about 4.7% of the Group's total revenue. The pharmaceutical bulk materials plant in Jiangsu is expected to start production ("Pharmaceutical Bulk Materials") in the first quarter of 2007 and would then contribute to the profit of the Group.

Pharmaceutical products

In September 2005, the National Development and Reform Commission ("NDRC") in the PRC imposed new price reductions on 22 kinds of drugs, which involved the specifications of more than 400 dosages, and the price reductions were as high as 40%, reflecting the largest reduction ever imposed in history. Despite such price pressures in the market, the Group's sale of antibiotics decreased only 3.3% in comparison with last year. However, the price effect on gross profit margins of antibiotics had caused segment results of Pharmaceutical Products to fall to approximately HK$18.8 million, or approximately 20% less than that of the same Period last year.

In contrast to the slight decline in the sale of anti-infectious category, the Group achieved satisfactory growth of 16.5%, 239.1% and 98% respectively in the sale of musculo-skeletal, gastro-intestinal and other curative drugs within the Pharmaceutical Products segment. This reflects the Group's success in gradually adjusting the sales mix in favour of new prescription drugs.

Trading pharmaceutical products

Turnover of Trading Pharmaceutical Products amounted to approximately HK$42.9 million, representing a decrease of approximately 29.3% as compared to the previous year. The Group recorded a segment result of approximately HK$7.8 million, representing a decrease of approximately 59.4%, as compared to the previous year.

These declines were caused by intense market competition on pricing of one of the main products of the Group but more importantly, the delay in supply to customers during October 2005 to February 2006 as a result of the relocation of the production base. Although supply is now back to normal, the impact of these factors had affected the performance of the trading segment during the Period despite a backdrop of rising sales in other products within the segment.

Health care products

Turnover of Chinese healthcare products amounted to approximately HK$8 million, representing a decrease of approximately 9.3% over last year. Management maintain a cautious attitude towards the development of the healthcare product market, and controlled the extent of capital investment in this segment. The Group shall continue the registration of products in Hong Kong for launch at the right time. The Group's marketing strategy would focus on the traditional retail market in Hong Kong, where a new round of advertising campaigns would be launched.

Pharmaceutical bulk materials

During the Period, the Jiangsu pharmaceutical bulk materials plant is still undergoing modifications but production is scheduled in the next financial period. Expenditures related to this segment was approximately HK$2.1 million for the Period.

Operating profit

Operating profit for the Group this year was approximately HK$28.4 million, reflecting a decrease by approximately 34.8% in comparison with last year. Apart from the above factors, the decline in sales performance

was also attributed by the slow progress of the promotion of new drugs. This decline occurred because during the Period, the relevant authorities of the PRC government performed large-scale anti-graft investigations of the hospital system, thus grounding almost to a halt the hospitals' normal purchase approval procedure of new drugs and medical instruments. The Group believes that a strong anti-graft policy is conducive to healthy competition in the prescription drugs market, and actually promotes the long-term development of the industry. On the other hand, the Group launched four new products this year, some of which had not yet been included in the National Medical Reimbursement List, thus affecting the sales volume of these products. The Group believes that through intense promotion and education of the new products and via more clinical trials and safety studies being published, these new products will be included in the National Medical Reimbursement List in the next review of listings. As for operating costs, the modification project of the Jiangsu pharmaceutical bulk materials plant entailed purchases of new machineries and increased staff costs, thus increasing administrative and other operating expenses of the Group by 16.8% and 49.4%, respectively, compared to the same Period last year.

The Group believes that following the scheduled production in 2007 of the pharmaceutical bulk materials plant, it will contribute to the revenue of the Group in the first quarter of 2007. New products launched in 2005 and those scheduled to be launched in the second half of 2006 would generally start to contribute to the Group's profits after a market promotion period of 12 to 18 months. Moreover, the supply of one of the main products in the trading segment is back to normal in February 2006 and it is predicted that their sales shall improve accordingly.

Profit attributable to equity holders

During the Period, the profit attributable to equity holders amounted to approximately HK$19.5 million, reflecting a decrease by 34.2% when compared with that of the previous year. Finance costs were about HK$3.8 million, reflecting a slight increase of 2.9% when compared with that of the previous year. Fresh bank borrowing was primarily for the modification project in respect of the pharmaceutical bulk materials plant.

SHARE TRANSFER AND ACQUISITION OF THE YEAR

Merger of two subsidiaries – Yunnan Jiwa Pharm-Tech Co. Ltd and Kunming Jida Pharmaceutical Co., Ltd

Pursuant to a share transfer agreement entered on 20 December 2004 between Jiwa Pharmaceuticals Limited ("JPL"), a wholly owned subsidiary of the Company, and Kunming Jida Pharmaceutical Co., Ltd. ("KJP"), a 70% owned subsidiary of the Company, JPL has disposed 100% interest in Yunnan Jiwa Pharm-Tech Co. Ltd ("YJPT"), another wholly owned subsidiary of the Group, to KJP for a consideration of approximately RMB17.9 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 were received from KJP on 20 April 2005, the date of completion of the transaction.

Pursuant to the disposal of all the equity interest in YJPT from JPL to KJP, YJPT became a wholly owned subsidiary of KJP and accordingly a 70% subsidiary of the Group. YJPT and KJP then applied to the Yunnan Administration for Industry and Commerce ("YAIC") for merger. The application was approved by YAIC on 30 May 2006 and a new business licence has been issued for the merged company. The purpose of this group restructuring is to further improve operating efficiencies via the consolidation of plant management personnel.

Investment in a pharmaceutical bulk materials company, Jiangsu Jiwa Rintech Pharmaceutical Company Limited

On 25 May 2005, the Group's subsidiary, Jiwa Rintech Holdings Limited ("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) or 80% of the capital of Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP"). On 3 September 2005, the Company announced the acquisition of the remaining 20% of the equity interests of JJRP held by the three independent parties at a total consideration of RMB6 million (or approximately HK$5.8

million). JJRP has since become the wholly-owned subsidiary of Jiwa Rintech. It is the long-term integration strategy of the Group to establish a pharmaceutical bulk materials plant in Jiangsu to supply global and domestic markets, and to meet part of the Group's raw material needs in its own production of pharmaceutical products. This acquisition results in an excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition of approximately HK$5 million to the Group.

Termination of acquiring share interest 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). On 1 June 2006, the Group received a letter from YPML, confirming its termination of the process of registration of the Share Transfer with the Yunnan Administration for Industry and Commerce (YAIC). The termination was due to the fact that one of the existing shareholders of YPML refused to approve the registration of the Share Transfer with YAIC. This refusal caused a delay in completion in excess of nine months from the date of signing of the Share Transfer Agreement, which in accordance with the Share Transfer Agreement would render the Share Transfer Agreement null and void. As payment of RMB5.3 million in respect of the Share Transfer was only dependent on obtaining the relevant approvals from the relevant PRC authorities, this termination of the Share Transfer process did not involve the recovery of any deposits paid by the Company, and thus caused no financial impact or any other adverse impact on the Company.

PROSPECTS

In view of the undergoing reforms within the PRC pharmaceutical industry, State's policy changes and changes in the industry's landscape, the Group would continue to implement the development strategies determined by the Board, which entails the development of drugs in five therapeutic areas (anti-infectious, gastro-intestinal, musculo-skeletal, cerebro-cardiovascular, anti-depressants and psychiatric disorder), the export of pharmaceutical bulk materials to European and American markets, and the pursuit of a cautious acquisition strategy.

Impetus for increase in profit

Intensive promotion of new drugs

The Company has successfully launched four new products during the year, namely Artrodar (Diacerein Capsules), Shi Si Tai (Somatostatin for Injection), Huo Duo Shi (Low Molecular Weight Heparin) and Jida Bente (Tamsulosin Hydrochloride).

Artrodar is developed by the Swiss company TRB CHEMEDICA (TRB), who holds a worldwide patent on the product. Artrodar falls under a new category of drugs called Symptomatic Slow Acting Drugs in Osteoarthritis (SYSADOA), which treats degenerative joint disease. A multi-center, double-blind, three-year study in France has proven the drug's positive effect on joint structure modification. This renders Artrodar as one of the world's most promising compounds in actually curing osteoarthritis, instead of just being a painkiller, as are most currently available products. The Group assisted TRB after four years of effort in registration and clinical trials in the PRC to finally obtain a PRC import drug license for Artrodar. The Group is currently the sole agent in China for Artrodar. The market is optimistic towards its prospects.

Shi Si Tai is a Somatostatin for treating a variety of neoplasms, as well as giantism and acromegaly, due to its ability to inhibit growth hormone secretion. In cooperation with China Medical Science Academy, the Group has developed a state-of-the-art solid phase synthesis production method for this product.

Huo Duo Shi is a Low Molecular Weight Heparin that demonstrates a greater antithrombotic effect relative to its anticoagulant activity when compared with unfractionated heparin. Moreover, subcutaneous injection has a greater bioavailability and longer half-life than heparin, permitting once daily administration for prophylaxis treatment of deep venous thrombosis (DVT) or the treatment of established vascular disorders, including phlebopathies and related syndromes, as well as peripheral arterial occlusive disease. Huo Duo Shi also showed benefits as an adjunctive therapy in patients with angina pectoris. Huo Duo Shi is in prefilled-syringe dosage form, which not only make it easier to use for out-patients but also ensures the best product quality.

Jida Bente's generic name is tamsulosin hydrochloride, it is mainly used to cure symptoms of urinary retention caused by prostate enlargement. The curative effects of the product are long-lasting. The product can completely improve urinary retention problems and, as it has less harmful reactions, is suitable for long-term prescription. Its market prospects are good.

The Group has implemented strategic deployment of these new drugs, including the expansion of the new drug promotion department, the employment of a large number of product specialists, offering training to improve the service quality of the staff, and intensify the promotion work for each market terminals. Management believes that the additional value of a product is not only reflected in its quality, it also requires good communication to bring forth the value to the customers; as a result, the Group shall hold several new product launch conferences, and shall actively take part in a variety of marketing promotional activities.

Accelerate the development progress of preparation and pharmaceutical bulk materials

The Group has 17 products in the research and development (R&D) stage, six of which have entered the stage of declaration of production. These new products are mainly the musculo-skeletal, cerebro-cardiovascular specialised drugs and for the first time, the Group will also manufacture a drug focusing on the specific area of depression. It is expected that the production of the product shall be approved in 2006-2007. Combining imitation and innovation, these new specialised pharmaceutical products have further provided room for sales growth of drugs in different preparations and for the sales of pharmaceutical bulk materials. While promoting sales in the local market, the European and American markets are being actively explored.

For preparation, R&D mainly focuses on drugs of the anti-infectious, musculo-skeletal, gastro-intestinal, cerebro-cardiovascular, anti-depression and psychiatric disorders drugs, with the development of high-technological requirements. As preparation techniques in China are maturing, the Company shall establish 2 to 3 distinguished preparation platforms, including relieving preparation, nasal spray, targeting preparation, and so on, and shall apply for patents for the preparations. In the first quarter of 2006, the Group achieved a breakthrough in the development of patented products. The application for the citalopram chewing tablet patent was successfully accepted by State Intellectual Property Office. The Group was the first to have developed this preparation and it shall be the first product of the Group with intellectual property right fully possessed by the Group. The product symbolises that the Group's research techniques on specialised pharmaceutical products have taken a great step.

Regarding pharmaceutical bulk materials, because patents on several of the world's powerful drugs are successively expiring, as well as the pressure of high medical costs, the market growth rate of several generic drugs has been very high in recent years. Correspondingly, the supply of their pharmaceutical bulk materials is becoming more important. To the Group, the core competitiveness of pharmaceutical bulk material products is the technical level, which determines the cost and quality of a product. Focusing on the Group's gradual increase of R&D involvement in foreign non-patent pharmaceutical bulk materials from 2006, the Group shall continue taking over several pharmaceutical bulk materials which shall expire on time, and supply these to the international market. Moreover, the Group shall develop specialised pharmaceutical bulk materials for its own use and to meet the demands of the domestic medical market.

The strive for production of pharmaceutical bulk materials in 2007

During the Period, the progress of the pharmaceutical bulk materials plant went smoothly, and the reconstruction project of the plant was accelerated. The plant is expected to be completed in several phases within the year 2006. The DMF work of the products to be exported has already started, and expected to be submitted to Food and Drug Administration (FDA) in 2006. Management believes that the pharmaceutical bulk materials factory shall begin production of chemical pharmaceutical bulk materials in the first quarter of 2007 and bring more income to the Group.

Strengthening internal control, and effective and efficient use of resources

With the business and regional expansion of the Group, Management has implemented Enterprise Resource Planning (ERP) and formulated internal monitoring measures. Among these, since ERP is one of the technical reconstruction items of the Yunnan Province, it has acquired relevant support from the Finance Bureau and Economic and Trade Commission of Yunnan Province, which in turn, offers subsidies and allowances to the Group.

The implementation of the above items can effectively strengthen internal control, increase the immediacy of product supply, reduce costs related to stock shortages and excessive inventory, conduct performance assessments and decision-making functions of the enterprise through the capturing and analysis of business information, and strengthen the management of procedures and co-sharing of information. The execution of ERP and the internal monitoring system can effectively strengthen the Group's use and management of resources, to promote efficiency and further increase profit.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity

As at 31 March 2006, cash and cash equivalents of the Group totalled approximately HK$27.7 million (2005: approximately HK$56.7 million), of which approximately 13.8% are in Hong Kong dollars, 33.8% in RMB, 41.7% in US dollars, 10.5% in Euro and 0.2% in Macau Pataca. The decrease in cash and cash equivalents over last year is mainly a result of early repayments of bank loans during the year to contain finance costs; which remained relatively unchanged compared to the same period last year despite an increase in non-current assets and rising interest rates.

Although the Group has consistently been in a liquid position, banking facilities have nevertheless been utilized partly to enjoy the interest grant concession offered by the PRC authorities (on long term bank loans to encourage investment in ERP system in 2006) and partly to reserve funds for general working capital.

As at 31 March 2006, the Group had aggregate banking facilities of approximately HK$158.1 million (2005: approximately HK$173.2 million) of which approximately HK$73.0 million was utilized (2005: approximately HK$96.3 million) as to approximately HK$16.9 million in long term bank loans, as to approximately HK$47.8 million in short term bank loans, as to approximately HK$6.7 million in letters of guarantee and as to the balance of approximately HK$1.6 million in Letter of credit issued by the relevant banks to independent third parties. The Group's aggregate banking facilities of approximately HK$158.1 million include approximately HK$113.6 million equivalents in RMB denominated banking facilities. The utilized banking facilities of approximately HK$73.0 million includes approximately HK$55.3 million equivalent in RMB denominated bank borrowings.

Interest rate risk

The Group's bank borrowings are mainly denominated in RMB (refer to above) and RMB interest rates are the lowest during the period among the Group's functional currencies in RMB, Hong Kong dollars and US dollars.

As at 31 March 2006, the gearing ratio was approximately 19.1% (2005: approximately 26.1%), calculated based on the Group's total bank borrowings of approximately HK$64.7 million (2005: approximately HK$89.6 million) over the Group's total assets of approximately HK$339.2 million (2005 (Restated): approximately HK$343.4 million). The decrease in gearing ratio reflects the Group's efforts in containing finance costs in a rising interest rate environment.

Foreign currency risk

The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 31 March 2006 and actively monitors its net foreign currency exposures. As the bulk of the Group's transactions and assets are denominated in HK dollars, US dollars and RMB, the impact of foreign currency fluctuations is minimal and the current hedging facilities are considered sufficient for the near future.

Credit risk

The Group has a pragmatic approach towards credit risk management. New customers are usually not allowed on credit and the payment conduct of clients are monitored both to facilitate the determination of credit limit as well as a control over whether new sale deliveries should be made. The Group's sale staff and marketing agents pay regular visits to customers to promote the Group's products and at the same time would update information on the clients' credit worthiness. The remuneration of sales staff and marketing agents are structured so that there is a goal congruence in maintaining a robust credit risk management system.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Contracted for		
– acquisition of technical know-how	**990**	1,226
	990	1,226
Authorised but not contracted for		
– acquisition of property, plant and equipment	**6,885**	5,817
	7,875	7,043

Funding for capital commitments is expected to come from the Group's internal resources.

CHARGE ON GROUP ASSETS

As at 31 March 2006, bank loans amounting to approximately HK$55.3 million (31 March 2005: nil) were secured by certain assets of the Group having a net book value of approximately HK$58.1 million.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group has not provided any form of guarantees for any company outside the Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYMENT REMUNERATION POLICY

As at 31 March 2006, the Group had approximately 460 employees. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant options to eligible employees under its share option scheme.