1. GENERAL INFORMATION

Jiwa Bio-Pharm Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is 2904 and 2906, Tower One, Lippo Centre, 89 Queensway, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (the "Group") include manufacturing, sales and trading of pharmaceutical and health care products. The Group has manufacturing plants in the People's Republic of China ("PRC") and sells mainly in PRC.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31 March 2006 were approved by the board of directors on 12 July 2006.

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 April 2005, the Group has adopted for the first time the new or revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 March 2005.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

(a) Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

(b) Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively. Where the land and buildings elements cannot be allocated reliably, the entire lease payments continues to be treated as finance leases and included in property, plant and equipment.

(c) Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies:

Goodwill

Goodwill arising on acquisition prior to 1 April 2005 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 April 2005 and the accumulated amortisation at 31 March 2005 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash generating units.

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

(c) Adoption of HKAS 36, HKAS 38 and HKFRS 3 (Continued)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement in the period in which the acquisition takes place.

Intangible assets (other than goodwill)

No adjustments to prior period financial statements were deemed to be necessary as a result of the reassessment of the useful lives of its intangible assets in accordance with the provisions of HKAS 38.

(d) Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

(e) The effect of changes in the accounting policies on the consolidated income statement is summarised below:

	Effect of adopting HKAS 17 HK$'000
Year ended 31 March 2006	
Increase in profit – net decrease in depreciation/amortisation charges	48
Year ended 31 March 2005	
Increase in profit – net decrease in depreciation/amortisation charges	57

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

(f) The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:

	Effect of adopting HKAS 17 HK$'000	Effect of adopting HKFRS 3 HK$'000	Total HK$'000
At 1 April 2004 (Equity only)			
Increase in equity	114	–	114
At 31 March 2005			
Increase/(Decrease) in assets			
Property, plant and equipment	(6,903)	–	(6,903)
Land use rights	7,074	–	7,074
Increase in equity			
Retained profits	171	–	171
At 31 March 2006			
Increase/(Decrease) in assets			
Property, plant and equipment	(4,232)	–	(4,232)
Land use rights	4,426	–	4,426
Goodwill	–	91	91
Increase in equity			
Retained profits	194	91	285

(g) New Standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following Standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease[2]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

(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.

(c) Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all separate financial statements of subsidiaries and jointly controlled entities, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Goodwill

Goodwill arising on acquisition prior to 1 April 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1 April 2005 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is stated at gross amount less accumulated amortisation and impairment losses. Amortisation is provided on a straight line basis over its estimated useful life of ten years.

The Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually and whenever there is indication that the cash generating unit to which the goodwill relates becomes impaired.

Goodwill arising on acquisition on or after 1 April 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is on or after 1 April 2005 represents the excess of the cost of acquisition over the fair value of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (other from goodwill) and research and development activities

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3(h). Amortisation commences when the intangible assets are available for use.

All research and development costs are expensed as incurred.

(g) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight-line method, over their estimated useful lives as follows:

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(h) Impairment of assets

Goodwill, other intangible assets, property, plant and equipment and investments in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and 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.

(i) Financial assets

In previous years, the Group classified its investments in securities, other than subsidiaries, as investment securities which were stated in the balance sheet at cost less impairment losses. Impairment loss are made when the fair value of such securities had declined below the carrying amounts, unless there was evidence that the decline was temporary. Impairment loss were charged to the income statement.

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.

From 1 April 2005 onwards, the Group classifies its financial assets, into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised on their trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets (Continued)

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either held for trading or are designated by the Group to be carried at fair value through profit or loss on initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

(ii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse through profit or loss in subsequent periods.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(j) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and in the case of work in progress and finished goods, comprise direct materials and an appropriate portion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(m) Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(o) Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan ("Employer contributions"). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the Employer contributions. Contributions under the PRC RB Plan are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(p) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 April 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Share-based employee compensation (Continued)

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to capital reserve. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profit.

(q) Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and finance leasing liabilities. They are included in balance sheet line items as borrowings under current or non-current liabilities and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

(s) Income and expense recognition

Revenue comprises the amounts received/receivable for the sale of goods and services, net of rebates and discount and after eliminating sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised upon transfer of risk and rewards of ownership to the customer and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method. Where a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Operating expenses are recognised in the income statement upon utilisation of the services.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company/Group that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate of the Company/Group;

(c) the party is a joint venture in which the Company/Group is a venturer;

(d) the party is a member of the key management personnel of the Company/Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) to (d);

(f) the party is an entity that is controlled, joint controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) to (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

(v) Segment reporting

In accordance with the Group's internal financial reporting system, the Group has determined that business segment be presented as the primary reporting format and geographical segment as secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude available-for-sale investment and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(w) Operating leases

(i) 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.

(ii) Land use rights are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculation. These calculations require the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

Impairment of property, plant and equipment and inventories

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exist, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than the estimated.

5. REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of pharmaceutical products and health care products supplied, less returns and discounts.

6. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into four main business segments:

(i) Pharmaceutical products – Manufacturing and sale of pharmaceutical products.

(ii) Trading pharmaceutical products – Trading of pharmaceutical products.

(iii) Health care products – Manufacturing and sale of health care products.

(iv) Pharmaceutical bulk materials – Manufacturing of pharmaceutical bulk materials.

6. SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Pharmaceutical products		Trading pharmaceutical products		Health care products		Pharmaceutical bulk materials		Inter-segment elimination		Consolidated	
	2006 HK$'000	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)
Revenue from external customers	**119,386**	109,712	**42,869**	60,658	**8,030**	8,856	**–**	–	**–**	–	**170,285**	179,226
Inter-segment revenue	**4,814**	6,578	**–**	–	**–**	–	**–**	–	**(4,814)**	(6,578)	**–**	–
Total	**124,200**	116,290	**42,869**	60,658	**8,030**	8,856	**–**	–	**(4,814)**	(6,578)	**170,285**	179,226
Segment results	**23,632**	30,096	**7,784**	19,179	**336**	1,624	**(2,096)**	–	**(4,814)**	(6,578)	**24,842**	44,321
Unallocated operating income and expenses											**(1,466)**	(789)
Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition											**4,986**	–
Profit from operations											**28,362**	43,532
Finance costs											**(3,757)**	(3,652)
Income tax											**(1,594)**	(5,673)
Profit for the year											**23,011**	34,207
Depreciation	**6,975**	4,978	**734**	805	**105**	97	**185**	–	**–**	–	**7,999**	5,880
Amortisation of intangible assets	**206**	17	**–**	–	**–**	–	**–**	–	**–**	–	**206**	17
Annual charges of land use right	**369**	345	**36**	38	**–**	–	**162**	–	**–**	–	**567**	383
Reversal of impairment loss on property, plant and equipment	**–**	–	**–**	(804)	**–**	–	**–**	–	**–**	–	**–**	(804)
Segment assets	**213,092**	238,860	**74,942**	73,227	**2,597**	2,358	**45,687**	9,333	**–**	–	**336,318**	323,778
Unallocated assets											**2,856**	19,660
Total assets											**339,174**	343,438
Segment liabilities	**21,684**	17,442	**13,966**	12,681	**239**	318	**–**	–	**–**	–	**35,889**	30,441
Unallocated liabilities											**62,621**	89,690
Total liabilities											**98,510**	120,131
Capital expenditure incurred during the year	**9,315**	24,355	**540**	998	**212**	558	**35,645**	–	**–**	–	**45,712**	25,911

Secondary reporting format – Geographical segments

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

7. OTHER INCOME

	2006 **HK$'000**	2005 HK$'000
Interest income	**362**	488
Gain/(Loss) on disposal of property, plant and equipment	**1,707**	(84)
Gain on disposal of land use rights	**775**	–
Net income from insurance claims	**16**	227
Net exchange gain/(loss)	**843**	(66)
Others	**93**	204
	3,796	769

8. FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
Interest on bank loans wholly repayable within five years	**3,757**	4,579
Less: Borrowing costs capitalised into construction in progress	**–**	(927)
	3,757	3,652
Annual capitalisation rate of borrowing costs	**–**	5.0%

9. PROFIT BEFORE INCOME TAX

	2006 **HK$'000**	2005 HK$'000 (Restated)
Profit before income tax is arrived at after charging/(crediting):		
Costs of inventories sold (i)	**94,850**	84,440
Auditors' remuneration	**350**	390
Depreciation	**7,999**	5,880
Amortisation of goodwill	**–**	38
Amortisation of intangible assets	**206**	17
Annual charges on land use rights	**567**	383
Reversal of impairment loss on property, plant and equipment	**–**	(804)
Operating lease charges in respect of premises	**2,853**	2,472
Research and development costs (ii)	**2,010**	2,285
Write off of property, plant and equipment	**342**	–

Notes:

(i) Cost of inventories includes HK$7,778,000 (2005: HK$5,618,000) 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) Research and development costs comprise staff costs of HK$165,000 (2005: HK$22,000) which are also included in the total amount of employee benefit expenses in note 14.

10. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2006 HK$'000	2005 HK$'000
Current tax – provision for Hong Kong profits tax		
Tax for the year	**972**	4,760
Over provision in respect of prior years	**(117)**	(18)
	855	4,742
Current tax – outside Hong Kong		
Provision for PRC income tax	**2,147**	1,688
Tax refund	**(1,481)**	(1,022)
	666	666
Deferred tax		
Current year (note 31)	**73**	265
	1,594	5,673

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit 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.

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

	2006 HK$'000	2005 HK$'000 (Restated)
Profit before income tax	**24,605**	39,880
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**2,794**	5,662
Tax effect of non-deductible expenses	**858**	151
Tax effect of non-taxable revenue	**(1,326)**	(169)
Tax losses not recognised as deferred tax assets	**628**	866
Tax effect of temporary differences not recognised	**(6)**	(77)
Tax refund	**(1,481)**	(1,022)
Others	**244**	280
Over provision in prior years	**(117)**	(18)
Actual tax expense	**1,594**	5,673

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$19,459,000 (2005 (Restated): HK$29,568,000), a loss of HK$251,000 (2005: profit of HK$19,649,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2006 **HK$'000**	2005 HK$'000
Final dividend proposed after the balance sheet date of HK$0.01 per share (2005: HK$0.015 per share)	**5,000**	7,500

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

	2006 **HK$'000**	2005 HK$'000
Final dividend in respect of the previous financial year approved and paid during the year of HK$0.015 per share (2005: HK$0.013 per share)	**7,500**	6,500

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$19,459,000 (2005 (Restated): HK$29,568,000) and on 500,000,000 (2005: 500,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

No diluted earnings per share has been presented as there were no potential dilutive ordinary shares. The calculation of diluted earnings per share for 2005 was based on the profit attributable to equity holders of the Company of HK$29,568,000 and on the weighted average of 500,221,383 ordinary shares in issue during last year, after adjusting the effect of all dilutive potential shares under the Company's share option scheme.

14. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK$'000	2005 HK$'000
Salaries and wages	**16,323**	14,873
Rentals for staff and directors	**1,438**	1,398
Contribution to defined contribution plans	**1,273**	1,135
	19,034	17,406

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

Executive directors and Independent Non-Executive directors

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Contribution to retirement plan HK$'000	Total HK$'000
2006					
Executive directors					
Mr. Lau Yau Bor	**–**	**1,679**	**55**	**–**	**1,734**
Mr. Lau Kin Tung	**–**	**1,289**	**43**	**12**	**1,344**
Madam Chan Hing Ming	**–**	**267**	**16**	**7**	**290**
Independent Non-Executive directors					
Mr. Fung Tze Wa	**100**	**–**	**–**	**–**	**100**
Mr. Choy Ping Sheung	**80**	**–**	**–**	**–**	**80**
Mr. Seet Lip Chai (i)	**58**	**–**	**–**	**–**	**58**
Mr. Soo Ping Shu, Samuel (ii)	**33**	**–**	**–**	**–**	**33**
	271	**3,235**	**114**	**19**	**3,639**
2005					
Executive directors					
Mr. Lau Yau Bor	–	1,547	48	–	1,595
Mr. Lau Kin Tung	–	1,254	37	12	1,303
Madam Chan Hing Ming	–	261	16	9	286
Independent Non-Executive directors					
Mr. Fung Tze Wa	58	–	–	–	58
Mr. Choy Ping Sheung	80	–	–	–	80
Mr. Soo Ping Shu, Samuel (ii)	80	–	–	–	80
	218	3,062	101	21	3,402

(i) Mr. Seet Lip Chai was appointed on 1 September 2005.

(ii) Mr. Soo Ping Shu, Samuel ceased to hold office with effect from 1 September 2005.

No directors waived or agreed to waive any emoluments in respect of the years ended 31 March 2005 and 31 March 2006.

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries, housing, other allowances and benefits in kind	**1,009**	1,376
Discretionary bonuses	**209**	269
Retirement scheme contribution	**24**	36
	1,242	1,681

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Nil – HK$1,000,000	**2**	3

No emolument was paid by the Group to the directors or any of the five highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings HK$'000 (Restated)	Motor vehicles HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 1 April 2004					
Cost	37,172	2,252	27,536	3,942	70,902
Accumulated depreciation and impairment losses	(3,132)	(1,237)	(9,029)	(1,150)	(14,548)
Net book amount	34,040	1,015	18,507	2,792	56,354
Year ended 31 March 2005					
Opening net book amount	34,040	1,015	18,507	2,792	56,354
Additions	3,794	–	79	2,467	6,340
Disposals	–	–	(104)	–	(104)
Depreciation	(2,411)	(438)	(1,811)	(1,220)	(5,880)
Reversal of impairment losses	804	–	–	–	804
Transfer from construction in progress	48,817	–	690	–	49,507
Closing net book amount	85,044	577	17,361	4,039	107,021
At 31 March 2005					
Cost	89,807	2,252	27,949	6,409	126,417
Accumulated depreciation	(4,763)	(1,675)	(10,588)	(2,370)	(19,396)
Net book amount	85,044	577	17,361	4,039	107,021
Year ended 31 March 2006					
Opening net book amount	85,044	577	17,361	4,039	107,021
Acquisition of a subsidiary	13,922	–	9,129	3	23,054
Additions	103	659	810	1,371	2,943
Disposals	(2,790)	(110)	(44)	(385)	(3,329)
Depreciation	(4,151)	(354)	(1,914)	(1,580)	(7,999)
Transfer from construction in progress	4,435	–	10,701	1,949	17,085
Transfer to construction in progress	(16,851)	–	–	–	(16,851)
Translation differences	2,810	12	516	95	3,433
Closing net book amount	82,522	784	36,559	5,492	125,357
At 31 March 2006					
Cost	90,893	2,476	49,291	9,413	152,073
Accumulated depreciation	(8,371)	(1,692)	(12,732)	(3,921)	(26,716)
Net book amount	82,522	784	36,559	5,492	125,357

Buildings with carrying amount of HK$51,169,000 (2005: Nil) were pledged to secure bank loans (note 28).

17. LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Hong Kong held on:		
– Leases of over 50 years	**4,426**	7,074
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	**22,897**	12,360
	27,323	19,434
Less: Current portion included in current assets	**(637)**	(383)
	26,686	19,051

Land use rights with carrying amount of HK$6,916,000 (2005: Nil) was pledged to secure bank loans (note 28).

	2006 HK$'000	2005 HK$'000 (Restated)
Opening net carry amount	**19,434**	12,830
Acquisition of a subsidiary	**10,420**	6,987
Disposal	**(2,612)**	–
Annual charges of prepaid operating lease payment	**(567)**	(383)
Translation differences	**648**	–
Closing net carrying amount	**27,323**	19,434

18. CONSTRUCTION IN PROGRESS – GROUP

	2006 HK$'000	2005 HK$'000
At 1 April	**24,742**	61,664
Additions	**9,295**	12,585
Transferred from property, plant and equipment	**16,851**	–
Transferred to property, plant and equipment	**(17,085)**	(49,507)
Translation differences	**721**	–
At 31 March	**34,524**	24,742

Construction in progress at 31 March 2006 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming.

19. AVAILABLE FOR SALE FINANCIAL ASSETS – GROUP

	2006 **HK$'000**	2005 HK$'000
Unlisted equity securities in PRC, at cost	**1,181**	1,148

The above unlisted investment is measured at cost at balance sheet date because the directors of the Company are of the opinion that their fair value cannot be measured reliably as no market value is available.

20. GOODWILL – GROUP

	HK$'000
Year ended 31 March 2005	–
Addition	918
Amortisation	(38)
Net carrying amount, at 31 March 2005	**880**
At 31 March 2005	
Gross carrying amount	918
Accumulated amortisation	(38)
Net book amount	880
Year ended 31 March 2006	
Net carrying amount, at 1 April 2005	880
Net exchange difference	26
Net carrying amount, at 31 March 2006	**906**
At 31 March 2006	
Gross carrying amount	906
Accumulated amortisation	–
Net book amount	906

In accordance with HKFRS 3, all accumulated amortisation as at 31 March 2005 was eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1 April 2005.

Subsequent to the annual impairment test for 2006, the carrying amount of goodwill is allocated to the cash generating unit of pharmaceutical products. The recoverable amounts for the cash generating unit was determined based on value-in-use calculations, covering a detailed ten-year budget plan, followed by an extrapolation of expected cash flows at the growth rate of 5% per annum and discount rate of 6%. The growth rates reflect the long-term average growth rates for the pharmaceutical products.

Apart from the considerations described in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

21. INTANGIBLE ASSETS – GROUP

	Technical know-how
	HK$'000
Year ended 31 March 2005	
Opening net book amount, at 1 April 2004	–
Addition	613
Amortisation charge	(17)
Closing net book amount, at 31 March 2005	596
At 31 March 2005	
Cost	613
Accumulated amortisation	(17)
Net book amount	596
Year ended 31 March 2006	
Opening net book amount, at 1 April 2005	596
Exchange difference	13
Amortisation charge	(206)
Closing net book amount	**403**
At 31 March 2006	
Cost	613
Accumulated amortisation	(210)
Net book amount	**403**

The Directors consider the useful life of the above technical know-how is three years.

22. INVESTMENT IN SUBSIDIARIES – COMPANY

	2006 **HK$'000**	2005 HK$'000
Unlisted investments, at cost	**82,380**	82,380

Particulars of the Company's subsidiaries as at 31 March 2006 are as follows:

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 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	–	70%	Research and development of pharmaceutical products
Jiwa Rintech Holdings Limited ("Jiwa Rintech")	BVI	10 ordinary shares of US$1 each	–	80%	Investment holding
Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP")	PRC	RMB30,000,000	–	80%	Manufacturing and trading of pharmaceutical bulk materials
Sino-Tech International (Macao Commercial Offshore) Limited	Macau	MOP100,000	–	100%	Trading of pharmaceutical products

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

Amounts due from subsidiaries are unsecured, interest-free and with no fixed terms of repayment.

23. INVENTORIES – GROUP

	2006 HK$'000	2005 HK$'000
Raw materials	**13,526**	10,233
Work in progress	**5,739**	7,958
Finished goods	**8,874**	11,096
	28,139	29,287

24. ACCOUNTS AND BILLS RECEIVABLE – GROUP

Customers of existing products 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:

	2006 HK$'000	2005 HK$'000
Within 3 months	**44,546**	63,293
Aged over 3 months but less than 6 months	**5,231**	894
Aged over 6 months	**16,236**	496
	66,013	64,683
Bills receivable	**1,793**	–
	67,806	64,683

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

25. PREPAYMENTS AND OTHER RECEIVABLES – GROUP

	2006 HK$'000	2005 HK$'000
Deposits	**457**	516
Other receivables	**6,191**	14,253
Prepayments	**10,130**	6,382
	16,778	21,151

26. AMOUNTS DUE FROM RELATED COMPANIES – GROUP

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

27. CASH AND CASH EQUIVALENTS – GROUP

Included in banks and cash balances of the Group is HK$15,482,000 (2005: HK$32,311,000) of bank balances denominated in Renminbi ("RMB") placed with banks in PRC. RMB is not a freely convertible currency.

28. BANK LOANS – GROUP

	2006 HK$'000	2005 HK$'000
Non-current		
Bank loans	**16,928**	47,170
Current		
Bank loans	**47,772**	42,453
	64,700	89,623

Total bank loans include secured liabilities of HK$55,339,000 (2005: HK$Nil). Bank loans are secured by the buildings and land use rights of the Group with net book value of HK$51,169,000 and HK$6,916,000 respectively (2005: Nil).

At 31 March 2006, the bank loans were repayable as follows:

	2006 HK$'000	2005 HK$'000
Within 1 year or on demand	**47,772**	42,453
After 1 year but within 2 years	**7,593**	47,170
After 2 years but within 5 years	**9,335**	–
	64,700	89,623

The carrying amounts of the non-current and short-term bank loans approximate their fair value.

The carrying amounts of the bank loans are denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
United States Dollar ("US$")	**9,360**	–
RMB	**55,340**	89,623
	64,700	89,623

The effective interest rates at the balance sheet date and maturity dates of the bank loans were as follows:

	Interest rates	
	2006	2005
Bank loans in US$ – Floating rate, to be matured in 2009	**US$ Prime rate (2006: 7.75%) less 0.75%**	–
Bank loans in RMB – Fixed rates, to be matured from 2006 to 2008	**4.94% to 5.76%**	4.70% to 5.02%

29. ACCOUNTS AND BILLS PAYABLE – GROUP

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

	2006 **HK$'000**	2005 HK$'000
Accounts payable		
– Due within 1 month or on demand	**506**	12,476
– Due after 1 month but within 3 months	**14,648**	1,849
– Due after 3 months but within 6 months	**186**	3,627
– Due after 6 months	**123**	–
	15,463	17,952
Bills payable	**7,595**	4,983
	23,058	22,935

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

30. ACCRUED EXPENSES AND OTHER PAYABLES – GROUP

	2006 **HK$'000**	2005 HK$'000
Other payables	**9,342**	6,389
Accruals	**982**	807
	10,324	7,196

31. DEFERRED TAX – GROUP

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	**Total** HK$'000
Deferred tax arising from:			
At 1 April 2004	2,459	3,242	5,701
Charged to consolidated income statement	(176)	(89)	(265)
At 31 March 2005 and 1 April 2005	2,283	3,153	5,436
Charged to consolidated income statement	(25)	(48)	(73)
Exchange difference	66	90	156
At 31 March 2006	**2,324**	**3,195**	**5,519**

The Group has not recognised deferred tax assets in respect of unused tax losses of HK$4,520,000 (2005: HK$866,000) because of the unpredictability of future profit streams. Tax losses amounted to HK$4,166,000 will expire in 2009. Tax losses of HK$354,000 will not have any expiry date.

32. SHARE CAPITAL – COMPANY

	2006 Number of shares	**2006** Amount HK$'000	2005 Number of shares	2005 Amount HK$'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 31 March	**500,000,000**	**5,000**	500,000,000	5,000

33. RESERVES

GROUP

Please refer to the Consolidated Statement of Changes in Equity for reserves of the Group on page 30.

(i) Contributed surplus

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) General reserve fund and Enterprise expansion fund

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.

(iii) Revaluation adjustment

Revaluation adjustment represents the fair value adjustment which is attributed to the 5% increase in the shareholdings 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.

(iv) Capital reserve

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.

COMPANY

	Share premium HK$'000	**Contributed surplus** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 April 2004	52,609	82,180	(336)	134,453
Dividend approved in respect of the previous year	–	–	(6,500)	(6,500)
Profit for the year	–	–	19,649	19,649
At 31 March and 1 April 2005	52,609	82,180	12,813	147,602
Dividend approved in respect of the previous year	–	–	(7,500)	(7,500)
Loss for the year	–	–	(251)	(251)
At 31 March 2006	52,609	82,180	5,062	139,851

	2006 **HK$'000**	**2005** HK$'000
Retained profits represent:		
Final proposed dividend (Note 12)	**5,000**	7,500
Others	**62**	5,313
	5,062	12,813

34. SHARE-BASED EMPLOYEE COMPENSATION

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

	2006 Number	2005 Number
At 1 April	**17,000,000**	9,266,000
Issued	**–**	20,000,000
Cancelled	**–**	(12,266,000)
At 31 March	**17,000,000**	17,000,000
Option vested at 31 March	**17,000,000**	17,000,000

(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**	**2006 Number**	2005 Number
31 March 2004	HK$0.375	31 March 2004 to 30 March 2009	HK$0.377	**2,000,000**	2,000,000
4 May 2004	HK$0.295	4 May 2004 to 3 May 2009	HK$0.310	**4,000,000**	4,000,000
29 December 2004	HK$0.330	29 December 2004 to 28 December 2009	HK$0.336	**11,000,000**	11,000,000
				17,000,000	17,000,000

(c) Details of share options granted during the year

Exercise period	**Exercise price**	**2006 Number**	2005 Number
1 April 2004 to 31 March 2009	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

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

34. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

(d) The Group did not grant any share options during the year ended 31 March 2006. As HKFRS 2 does not require full retrospective application of the new rules, the Group did not recognise any share-based employee compensation expenses during the year.

35. ACQUISITION OF A SUBSIDIARY – GROUP

On 10 June 2005 and 3 November 2005, the Group's 80% subsidiary, Jiwa Rintech, acquired 80% and 20% equity interest of Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP") for a consideration of HK$22,642,000 and HK$5,769,000 respectively. The acquired business contributed net loss of HK$1,812,000 and no revenue to the Group for the period from 10 June 2005 to 31 March 2006. However, due to a lack of HKFRS-specific data prior to the acquisition of JJRP, the pro-forma profit or loss of the combined entity for the complete 2006 reporting period has not been presented.

	Acquiree's carrying amount HK$'000	**Fair value** HK$'000
Net assets acquired		
Property, plant and equipment	23,054	23,054
Land use rights	4,038	10,420
Inventories	87	87
Prepayments and other receivables	61	61
Cash and cash equivalents	22,825	22,825
Tax receivable	24	24
Accrued expenses and other payables	(23,074)	(23,074)
Net assets acquired	27,015	33,397
Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition		(4,986)
Total purchase consideration paid for net identifiable assets and liabilities acquired, satisfied in cash		28,411
Less: Cash of the subsidiary acquired		(22,825)
Net cash outflow in respect of the acquisition of the subsidiary		5,586

The excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition was attributable to the bargain sale of the business by the vendor as the vendor did not intend to invest further resources in developing its pharmaceutical business.

36. COMMITMENTS – GROUP

(a) At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006 **HK$'000**	2005 HK$'000
Within 1 year	**794**	1,882
After 1 year but within 5 years	**74**	857
	868	2,739

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 2006 (2005: Nil).

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

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

The Company had no capital commitment as at 31 March 2006 (2005: Nil).

37. RELATED PARTY TRANSACTIONS – GROUP

The Group had the following transactions with related parties:

(a) Recurring

	Note	**2006 HK$'000**	2005 HK$'000
Sales of goods:			
– Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	(i)	**8,801**	24,385
– Yunnan Jiwa Pharm Logistics Company Limited ("YJPL")	(ii)	**–**	2,592
Purchase of goods:			
– YJPL	(ii)	**–**	312
Rentals paid:			
– Mr Lau Yau Bor	(iii)	**57**	82
– Jiwa Investment Limited	(iv)	**2,112**	1,977

Notes:

(i) Yunnan Pharmaceutical and Industrial Corporation Limited is the minority shareholder of KJP.

(ii) YJPL is controlled by the directors, Mr Lau Yau Bor and Mr Lau Kin Tung.

(iii) A director of the Company, Mr Lau Yau Bor, leased certain properties in the PRC to the Group.

(iv) Jiwa Investment Limited, which is controlled by the directors, Mr Lau Yau Bor and Madam Chan Hing Ming, leased certain staff quarters and office premises to the Group.

(b) Non-recurring

	2006 HK$'000	2005 HK$'000
Service fee	**–**	234

(c) Amounts due from/(to) related companies at 31 March 2006

(i) Amounts due from related companies

	2006 HK$'000	2005 HK$'000
Yunnan Jiwa Pharm Logistics Company Limited	**12**	7,925
Yunnan Pharmaceutical and Industrial Corporation Limited	**–**	2,758
	12	10,683

(ii) Amount due to a related company

	2006 HK$'000	2005 HK$'000
Yunnan Pharmaceutical and Industrial Corporation Limited	**428**	–

38. POST BALANCE SHEET EVENTS

Merger of two subsidiaries – Yunnan Jiwa Pharm-Tech Co. Ltd ("YJPT") and Kunming Jida Pharmaceutical Co., Ltd ("KJP")

Pursuant to the disposal of all the equity interest in YJPT from Jiwa Pharmaceutical Limited, a wholly owned subsidiary of the Company to KJP, a 70% held subsidiary during the year, YJPT became a wholly owned subsidiary of KJP and accordingly a 70% subsidiary of the Company. 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.

Termination of acquisition of share interest in Yunnan Pharmaceutical Materials Limited ("YPML")

As disclosed in the post balance sheet events in the Group's 2005 annual report, on 26 May 2005, the Group entered into a share transfer agreement (the "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 at 31 March 2005).

On 1 June 2006, the Group received a letter from YPML, confirming its termination of the process of registration of the share transfer with YAIC. The termination was due to one of the existing shareholders of YPML refused to approve the registration of the share transfer. This refusal caused a delay in the completion process in excess of nine months from the date of signing of the Share Transfer Agreement, which in accordance with the Share Transfer Agreement would cause the Share Transfer Agreement null and void. As the payment of the consideration in respect of the share transfer was upon obtaining the approvals from the relevant PRC authorities and was not yet paid by the Group, this termination of the share transfer process caused no financial or any other adverse impact on the Group.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated by the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The most significant financial risks to which the Group is exposed to are described below.

(a) Interest rate risk

The Group currently has no significant interest rate risk other than certain Group borrowings which bear floating interest rates. The Group did not enter into interest rates swap contracts to manage the Group's exposure to movements in interest rates.

(b) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet. Credit risk, therefore is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

(c) Foreign currency risk

The Group has transaction currency exposures arising from sales, purchases, capital and other expenditures in RMB and Euro which are different from the Company's functional currency. The Group entered into foreign currency forward contracts to manage the Group's exposure to movement in foreign currency exchange rates on specific transactions.

(d) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.