積華

Jiwa Bio-Pharm Holdings Limited
積華生物醫藥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 2327)

Interim Report 2006

* for identification only

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr Lau Yau Bor *(Chairman)*
Mr Lau Kin Tung
(Vice Chairman and Chief Executive Officer)
Madam Chan Hing Ming

Independent Non-Executive Directors

Mr Choy Ping Sheung
Mr Fung Tze Wa
Mr Seet Lip Chai

Company Secretary

Mr Chu Kim Ho (FCCA)

Audit Committee

Mr Fung Tze Wa *(Chairman)*
Mr Choy Ping Sheung
Mr Seet Lip Chai

Remuneration Committee

Mr Choy Ping Sheung *(Chairman)*
Mr Fung Tze Wa
Mr Seet Lip Chai

Nomination Committee

Mr Seet Lip Chai *(Chairman)*
Mr Choy Ping Sheung
Mr Fung Tze Wa

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong

2904 & 2906, Tower One
Lippo Centre
89 Queensway
Central
Hong Kong

Auditors

Grant Thornton
Certified Public Accountants

Principal Bankers

In Hong Kong:
Nanyang Commercial Bank Ltd.
Standard Chartered Bank
(Hong Kong) Ltd.

In the PRC:
Bank of China

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Standard Registrars Limited
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Company Website

www.jiwa.com.hk

Stock Code

2327

The directors (the "Directors") of Jiwa Bio-Pharm Holdings Limited (the "Company") are pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2006 (the "Period") together with the comparative figures for the corresponding Period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 September 2006
(Expressed in Hong Kong dollars)

	Notes	Six months ended 30 September **2006** **$'000** **(Unaudited)**	 2005 $'000 (Unaudited)
Turnover	2	**99,103**	94,269
Cost of sales		**(52,066)**	(52,729)
Gross profit		**47,037**	41,540
Other revenue		**405**	222
Other net income/ (loss)		**117**	331
Selling expenses		**(10,572)**	(12,473)
Administrative expenses		**(18,285)**	(17,045)
Share-based payment expenses		**(1,085)**	—
Other operating expenses		**(643)**	(1,301)
Profit from operations		**16,974**	11,274
Excess of the Groups interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition		**—**	3,262
Finance cost	3	**(1,204)**	(1,981)
Profit before tax	3	**15,770**	12,555
Taxation	4	**(1,818)**	(967)
Profit for the Period		**13,952**	11,588
Attributable to:			
Equity holders of the Company		**11,117**	10,453
Minority interest		**2,835**	1,135
		13,952	11,588
Earnings per share			
— Basic	6	**2.22 cents**	2.09 cents
— Diluted	6	**2.22 cents**	2.09 cents

The notes on page 8 to 21 form part of this interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 September 2006

(Expressed in Hong Kong dollars)

	Notes	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	**124,090**	125,357
Land use rights	8	**26,693**	26,686
Construction in progress		**38,026**	34,524
Intangible assets		**302**	403
Goodwill		**919**	906
Available-for-sale financial assets		**1,199**	1,181
Deferred tax assets		**5,499**	5,519
		196,728	194,576
Current assets			
Inventories		**32,216**	28,139
Accounts and bills receivable	9	**68,047**	67,806
Land use rights	8	**646**	637
Prepayments and other receivables		**24,507**	16,778
Amount due from related companies	16	**1,027**	12
Tax recoverable		**3,947**	3,488
Cash and cash equivalents	10	**21,093**	27,738
		151,483	144,598

	Notes	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Current liabilities			
Bank loans		**48,810**	47,772
Accounts and bills payable	*11*	**28,440**	23,058
Amount due to a related company	*16*	**–**	428
Accrued expenses and other payables		**12,942**	10,324
		90,192	81,582
Net current assets		**61,291**	63,016
Total assets less current liabilities		**258,019**	257,592
Non current liabilities			
Bank loans		**5,911**	16,928
Net Assets		**252,108**	240,664
CAPITAL AND RESERVES			
Share capital		**5,000**	5,000
Reserves		**209,029**	200,735
Equity attributable to equity holders of the Company		**214,029**	205,735
Minority interest		**38,079**	34,929
		252,108	240,664

The notes on 8 to 21 form part of this interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2006

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2006	2005
	Notes	***$'000***	*$'000*
		(Unaudited)	(Unaudited)
Attributable to equity holders of the Company			
At 1 April		**205,735**	187,030
Net Profit for the Period		**11,117**	10,453
Exchange translation reserve		**1,092**	1,394
Recognition of equity settled share-based payment		**1,085**	–
Dividends approved during the Period	*5*	**(5,000)**	(7,500)
At 30 September		**214,029**	191,377
Minority interest			
At 1 April		**34,929**	36,277
Share of Exchange translation reserve		**314**	825
Minority interest in subsidiary acquired		**–**	7,809
Share of Net Profit for the Period		**2,836**	1,135
At 30 September		**38,079**	46,046

The notes on page 8 to 21 form part of this interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 September 2006

(Expressed in Hong Kong dollars)

	Notes	Six months ended 30 September 2006 $'000 (Unaudited)	2005 $'000 (Unaudited)
Net cash from operating activities		**14,085**	22,253
Cash outflow from investing activities		**(4,547)**	(24,003)
Net cash outflow from financing activities		**(16,183)**	(20,954)
Net decrease in cash and cash equivalents		**(6,645)**	(22,704)
Cash and cash equivalents at 1 April		**27,738**	56,682
Cash and cash equivalents at 30 September		**21,093**	33,978

The notes on page 8 to 21 form part of this interim financial statements.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2006
(Expressed in Hong Kong dollars)

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated accounts for the six months ended 30 September 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The unaudited condensed consolidated accounts have been prepared on the historical cost basis. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2006, as described in the annual financial statements for the year ended 31 March 2006.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31 March 2006.

— Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual Periods beginning on or after 1 January 2006. The amendment has no material effect on the Group's policy;

— Amendment to HKAS 39, Amendment "The fair value option", effective for annual Periods beginning on or after 1 January 2006. The amendment has no material effect on the Group's policy;

— Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual Periods beginning on or after 1 January 2006. The amendment has no material effect on the Group's policy;

— Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual Periods beginning on or after 1 January 2006. The amendment has no material effect on the Group's policy;

— Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual Periods beginning on or after 1 January 2006. The amendment has no material effect on the Group's policy;

— HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual Periods beginning on or after 1 January 2006. This standard is not relevant for the Group;

— HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual Periods beginning on or after 1 January 2006. The Groups has reviewed its contracts. This interpretation has no material effect on the Group's policy;

— HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual Periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;

— HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market — waste electrical and electronic equipment", effective for annual Periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group; and

— HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual Periods beginning on or after 1 March 2006. This interpretation has no material effect on the Group's policy.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

— HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual Periods beginning on or after 1 May 2006. Management do not expect the interpretation to have material effect on the Group's policy;

— HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual Periods beginning on or after 1 June 2006. Management do not expect the interpretation to have material effect on the Group's policy; and

— HKFRS 7, "Financial instruments: Disclosures", effective for annual Periods beginning on or after 1 January 2007, and HKAS1, "Amendments to capital disclosures", effective for annual Periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual Periods beginning 1 March 2007.

The interim financial statements set out on pages 3 to 21 have been authorised for issue by the Board of Directors (the "Board") on 11 December 2006. These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

2. Segment reporting

An analysis of the Group's revenue and results by business segments is as follows:

For the six months ended 30 September

	Pharmaceutical Products		Trading Pharmaceutical Products		Health Care Products		Pharmaceutical Bulk Materials		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue										
Anti-infectious	**33,935**	34,252	**165**	1,287	**–**	–	**–**	–	**34,100**	35,539
Gastro-intestinal	**6,800**	5,963	**19,288**	12,762	**–**	–	**–**	–	**26,088**	18,725
Musculo-skeletal	**23,585**	24,013	**8,937**	10,220	**–**	–	**–**	–	**32,522**	34,233
Cerebro-cardiovascular	**332**	33	**–**	–	**–**	–	**–**	–	**332**	33
Others	**1,926**	1,150	**–**	–	**4,135**	4,589	**–**	–	**6,061**	5,739
	66,578	65,411	**28,390**	24,269	**4,135**	4,589	**–**	–	**99,103**	94,269
Segment results	**13,780**	10,804	**7,003**	4,539	**(342)**	(85)	**(2,382)**	–	**18,059**	15,258
Less: Unallocated (expenses)/income										
– Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition									**–**	3,262
– Share-based payment expenses									**(1,085)**	–
– Finance costs									**(1,204)**	(1,981)
– Taxation									**(1,818)**	(967)
– Minority interests									**(2,835)**	(1,135)
– Others									**–**	(3,984)
Profit attributable to shareholders									**11,117**	10,453

3. Profit from ordinary activities before taxation

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

	Six months ended 30 September	
	2006	2005
	$'000	*$'000*
	(Unaudited)	(Unaudited)
Cost of inventories#	**51,014**	51,812
Staff costs	**6,404**	6,099
Retirement costs	**628**	646
Depreciation	**4,017**	3,882
Operating lease charges in respect of premises	**1,240**	1,283
Interest on bank advances wholly repayable within five years	**1,204**	1,981
Research and development costs	**1,132**	1,084

Cost of inventories includes $2,513,000 (2005: $3,663,000) relating to staff cost, depreciation expenses, operating lease charges and retirement costs, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

4. Taxation

	Six months ended 30 September	
	2006	2005
	$'000	*$'000*
	(Unaudited)	(Unaudited)
Current tax		
Provision for Hong Kong Profits Tax	**731**	804
Provision for PRC income tax	**985**	484
Capital Gain Tax	**–**	1,067
Tax refunded	**–**	(1,496)
	1,716	859
Deferred tax		
Origination and reversal of temporary differences	**102**	108
	1,818	967

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the Period.

Profits of Kunming Jida Pharmaceutical Co. Ltd ("KJP"), a subsidiary of the Company in the People's Republic of China (the "PRC") was subject to PRC income tax at 24%. As KJP is recognised as a new high technology enterprise, according to the provisions on the Tax Policy of State High Technology Development Zone, Kunming, KJP is entitled to a reduced tax rate of 15%.

Unless tax reliefs are available to the Group, the provision for current income tax in 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.

5. Dividends

	Six months ended 30 September	
	2006	2005
	$'000	*$'000*
	(Unaudited)	(Unaudited)
Dividend approved during the Period	**5,000**	7,500

Pursuant to the resolutions passed at the shareholders' meeting on 28 August 2006, a final dividend of $5,000,000 (2005: $7,500,000) payable to the shareholders of the Company was declared and approved in respect of the year ended 31 March 2006.

The Board does not recommend the payment of an interim dividend for the Period (2005: $Nil).

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profits attributable to shareholders of $11,117,000 (2005: $10,453,000) and on 500,000,000 (2005: 500,000,000) ordinary shares in issue during the Period.

The diluted earnings per share is based on the profit attributable to shareholders of $11,117,000 (2005: $10,453,000) and the 500,725,932 (2005: 500,068,484) ordinary shares in issue during the Period, after adjusting the effect of all dilutive potential shares under the Company's share option scheme.

7. Property, plant and equipment

	At 30 September 2006 **$'000** **(Unaudited)**	At 31 March 2006 $'000 (Audited)
Opening net book amount		
At 1 April 2006/1 April 2005	**125,357**	107,021
Acquisition of a subsidiary	**–**	23,054
Additions	**1,045**	2,943
Disposals	**(87)**	(3,329)
Depreciation	**(4,017)**	(7,999)
Transfer from construction in progress	**–**	17,085
Transfer to construction in progress	**–**	(16,851)
Translation difference	**1,792**	3,433
Net book amount		
At 30 September 2006/31 March 2006	**124,090**	125,357

As at 30 September 2006, certain assets (buildings) of the Group with an aggregate carrying value of approximately $50,109,000 (31 March 2006: $51,169,000) were pledged to secure loans and borrowing facilities utilized by the Group.

8. Land use right

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Opening net carry amount		
At 1 April 2006/1 April 2005	**27,323**	19,434
Acquisition of a subsidiary	**–**	10,420
Disposals	**–**	(2,612)
Annual charges of prepaid operating lease payment	**(323)**	(567)
Translation difference	**339**	648
Net carrying amount		
At 30 September 2006/31 March 2006	**27,339**	27,323

Land use rights with carrying amount of $6,943,000 (31 March 2006: $6,916,000) was pledged to secure bank loans and borrowing facilities utilized by the Group.

9. Accounts and bills receivable

An ageing analysis of the accounts and bills receivable is as follows:

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Within 3 months	**55,734**	44,546
Aged over 3 months but less than 6 months	**1,120**	5,231
Aged over 6 months	**9,790**	16,236
	66,644	66,013
Bills receivable	**1,403**	1,793
	68,047	67,806

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

10. Cash and cash equivalents

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Cash at bank and in hand	**21,093**	27,738

11. Accounts and bills payable

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

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Accounts payable		
— Due within 1 month or on demand	**6,356**	506
— Due after 1 month but within 3 months	**11,660**	14,648
— Due after 3 months but within 6 months	**589**	186
— Due over 6 months	**163**	123
Bills payable	**9,672**	7,595
	28,440	23,058

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

12. Share capital

	At 30 September 2006		At 31 March 2006	
	No. of shares	**Amount $'000 (Unaudited)**	No. of shares	Amount $'000 (Audited)
Authorised:				
Ordinary shares of $0.01 each	**1,000,000,000**	**10,000**	1,000,000,000	10,000
Issued and fully paid:				
At 1 April 2006/1 April 2005	**500,000,000**	**5,000**	500,000,000	5,000
At 30 September 2006/31 March 2006	**500,000,000**	**5,000**	500,000,000	5,000

Notes:

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

13. Reserves

Movements in reserves

	Attributable to equity holders of the Company												
	Share capital $'000	Share premium $'000	Contributed surplus $'000	General reserve fund *(ii)* $'000	Enterprise expansion fund *(ii)* $'000	Revaluation adjustment *(iii)* $'000	Share option reserve $'000	Translation reserve $'000	Capital reserve *(i)* $'000	Retained Profits $'000	Total $'000	Minority interest *(iv)* $'000	Total $'000
(Audited)													
At 1 April 2005	5,000	52,609	2,000	62	63	(320)	–	–	2,830	124,786	187,030	36,277	223,307
Dividend approved in respect of the previous year *(Note 5)*	–	–	–	–	–	–	–	–	–	(7,500)	(7,500)	–	(7,500)
Decrease in minority interest arising from deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	4,197	4,197	(4,197)	–
Transfer to reserves	–	–	–	499	(6)	–	–	–	–	(493)	–	–	–
Dividend declared and payable to minority interests	–	–	–	–	–	–	–	–	–	–	–	(1,867)	(1,867)
Translation difference	–	–	–	–	–	–	–	2,549	–	–	2,549	1,164	3,713
Profit for the year	–	–	–	–	–	–	–	–	–	19,459	19,459	3,552	23,011
At 31 March 2006	5,000	52,609	2,000	561	57	(320)	–	2,549	2,830	140,449	205,735	34,929	240,664
(Unaudited)													
At 1 April 2006	5,000	52,609	2,000	561	57	(320)	–	2,549	2,830	140,449	205,735	34,929	240,664
Final dividend approved in respect of the previous years *(Note 5)*	–	–	–	–	–	–	–	–	–	(5,000)	(5,000)	–	(5,000)
Transfer to reserves	–	–	–	152	68	–	–	–	49	(269)	–	–	–
Exchange translation	–	–	–	–	–	–	–	1,092	–	–	1,092	314	1,406
Recognition of equity settled share-based payment	–	–	–	–	–	–	1,085	–	–	–	1,085	–	1,085
Profit for the Period	–	–	–	–	–	–	–	–	–	11,117	11,117	2,836	13,953
At 30 September 2006	5,000	52,609	2,000	713	125	(320)	1,085	3,641	2,879	146,297	214,029	38,079	252,108

Notes:

(i) 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 of KJP dated 18 January 2003. The amount was recognised as capital reserve in the consolidated balance sheet.

Under the Law of Macao, Sino-Tech International (Macao Commercial Offshore) Limited, a wholly owned subsidiary of the Group, is required to capitalise not less than 25% profit of each year to capital reserve, until the capital reserve amount would have accumulated up to 50% of the registered capital of this subsidiary.

(ii) In accordance with the Company's 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 were non-distributable. The transfers of these reserves are at discretion of the directors of the respective subsidiaries.

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

(iv) On 20 April 2005, a wholly owned subsidiary YJPT was sold to a 70% held subsidiary KJP. The transaction is a deemed disposal in which minority interest arises.

14. Share-based payment transactions

(i) Share option scheme

Movements in share options granted during the Period were as follows:

	As at 1 April 2006	Granted during the Period	Exercised during the Period	Cancelled during the Period	As at 30 September 2006	Date of grant	Exercise Period	Exercise price per share
Directors								
Lau Yau Bor	5,000,000	–	–	–	5,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK$0.336
	–	5,000,000	–	–	5,000,000	12 April 2006	12 April 2006 to 11 April 2011	HK$0.280
Lau Kin Tung	4,000,000	–	–	–	4,000,000	4 May 2004	4 May 2004 to 3 May 2009	HK$0.31
	1,000,000	–	–	–	1,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK$0.336
	–	5,000,000	–	–	5,000,000	12 April 2006	12 April 2006 to 11 April 2011	HK$0.280
Chan Hing Ming	5,000,000	–	–	–	5,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK$0.336
	–	5,000,000	–	–	5,000,000	12 April 2006	12 April 2006 to 11 April 2011	HK$0.280
Employees								
In aggregate	2,000,000	–	–	–	2,000,000	31 March 2004	31 March 2004 to 30 March 2009	HK$0.377
Total	17,000,000	15,000,000	–	–	32,000,000			

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

(ii) Valuation of options

According to the Black-Scholes Pricing Model (the "Model"), the estimated fair value of the share options granted during the Period was $1,085,000. The following table lists the significant inputs to the Model used for the Period ended 30 September 2006.

Stock price at grant date	$0.280
Exercise price	$0.280
Expected volatility	34.30%
Expected life	5 Years
Risk free rate	4.468%
Expected dividend yield	4.1%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous two years. The expected life used in the model was based on management's best estimation taking into account non-transferability and other behavioral consideration. Risk free rate was determined by reference to the yield of 5 years Exchange Fund Notes at the date of grant. Expected dividend yield was based on historical dividend yield of the shares of the Company.

15. Commitments

(a) Commitments under operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2006 *$'000* (Unaudited)	At 31 March 2006 *$'000* (Audited)
Within one year	**2,303**	794
After one year but within five years	**1,734**	74
	4,037	868

(b) Capital commitments

The Group had capital commitments outstanding as at 30 September 2006 not provided for in the interim financial statements as follows:

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Contracted for		
— acquisition of property, plant and equipment	**6,031**	—
— acquisition of technical know-how	**1,248**	990
	7,279	990
Authorised but not contracted for		
— acquisition of property, plant and equipment	**—**	6,885
	7,279	7,875

16. Related party transactions

(a) The following represents a summary of material recurring transactions during the relevant Period between the Group and the related parties:

	Notes	**Six months ended 30 September 2006 $'000 (Unaudited)**	2005 $'000 (Unaudited)
Sales of goods:			
— Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	*(i)*	3,941	6,077
Rentals paid:			
— Mr Lau Yau Bor	*(ii)*	30	17
— Mr Lau Kin Tung	*(iii)*	48	—
— Jiwa Investment Limited	*(iv)*	1,058	1,056

(b) Amounts due from/(to) related companies

Amount due from related companies

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
Yunnan Pharm Group *(i)*	**988**	–
Yunnan Jiwa Pharm Logistics Company Limited ("YJPL") *(v)*	**39**	12
	1,027	12

Amount due to related companies

	At 30 September 2006 $'000 (Unaudited)	At 31 March 2006 $'000 (Audited)
YJPL *(v)*	**–**	428
	–	428

Notes:

(i) The Group sold pharmaceutical products to Yunnan Pharm Group, based on the prevailing market prices.

(ii) During the relevant Period, a Director, Mr Lau Yau Bor, leased certain properties in the PRC to the PRC subsidiary. The terms were negotiated on an arm's length basis and the rental is in accordance with the prevailing market rental.

(iii) During the relevant Period, a Director, Mr Lau Kin Tung, leased a staff quarter to the Group. The terms were negotiated on an arm's length basis and rentals are determined in accordance with the prevailing market rate.

(iv) Jiwa Investment Limited, which is controlled by the Directors, Mr Lau Yau Bor and Madam Chan Hing Ming, leased staff quarters and office premises to the Group. The terms were negotiated on an arm's length basis and rentals are determined in accordance with the prevailing market rate.

(v) YJPL is a subsidiary of Jiwa Pharm & Chemicals Limited which is controlled by the Directors of the Company, Mr Lau Yau Bor and Mr Lau Kin Tung.

The Directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of the Group's business.

17. Approval of the interim financial statements

The interim financial statements were approved by the Board on 11 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Core Business Witnessed Steady Growth

The Group's core business witnessed steady growth during the Period. Turnover for the Period amounted to HK$99,103,000, representing an increase of 5.1% over the corresponding Period last year. Gross profit grew by 13.2% to HK$47,037,000. Profit from operations surged by 50.6% to HK$16,974,000 and profit attributable to equity holders was HK$11,117,000, up by 6.4% over the corresponding Period last year.

Pharmaceutical Products

Turnover of self-manufactured pharmaceutical products of HK$66,578,000 accounted for 67.2% (2005: 69.4%) of the Group's turnover. This represented a growth of 1.8% when compared with the corresponding Period last year. The Group recorded a segment result of HK$13,780,000, up 27.5% as compared to the corresponding Period last year.

Regarding sales of different drug categories, anti-infectious drugs accounted for 51% of total drug sales and specialised drugs accounted for 46.1%. In the specialised drug category, gastro-intestinal, musculo-skeletal and cerebro-cardiovascular drugs accounted for 10.2%, 35.4% and 0.5% of total drug sales, respectively.

During the Period, the Chinese government continued to reduce drug prices. However, as the Group has been optimising its product structure and launching new specialised drugs on an on-going basis, the impact of the price reductions was less significant. During the Period, the gross profit margin of the Group's products improved, from 44.1% last year to 47.5% this year.

Regarding new products, the self-manufactured pharmaceutical products launched by the Group — Jida Bente, Huo Duo Shi and Shi Si Tai have all been listed in the National Medical Insurance Catalogue ("Medical Insurance Catalogue") and drug tender results were satisfactory.

Jida Bente (generic name: Tamsulosin Hydrochloride) is a sustained-release tablet that is easy to take. Elderly patients with swallowing difficulty may also take this drug. In addition to having the efficacy of Tamsulosin Hydrochloride, its "unique preparation" was designated as a new drug category by the relevant Chinese authority and is entitled to three years of exclusive production. The major sales targets for Jida Bente are AAA hospitals. Currently, the marketing department is actively launching clinical promotions and has won tenders from hospitals in large cities such as Beijing, Guangzhou, Xian and Zhejiang, with satisfactory results. Growth in sales of this product is expected to become significant in 2007.

Huo Duo Shi (generic name: Low Molecular Weight Heparin) is of imported quality and is reasonably priced, enabling it to achieve a higher bid-winning rate and a higher bid-winning price in hospital tenders. After initial exploration and gradual penetration into the market since the product's launch almost a year ago, the Group succeeded in significantly enhancing Huo Duo Shi's brand recognition. With the accumulation of additional new clients and further exploration of the hospital market, sales of Huo Duo Shi are expected to witness substantial growth next year.

Shi Si Tai (generic name: Somatostatin) is manufactured by a cutting-edge solid phase synthetic production method successfully developed by the Group and the Chinese Academy of Medical Sciences. As a domestically-manufactured somatostatin, this product has the competitive advantage of high quality and low price, its quality is comparable to that of imported products but its price is much lower. At present, the Group has already won hospital tenders in more than ten large cities. According to forecasts by the marketing department, with the stepping up of promotional activities, the Company is expected to gradually win additional hospital tenders and sales are expected to increase accordingly.

Trading Pharmaceutical Products

During the Period, turnover from trading pharmaceutical products of HK$28,390,000 accounted for 28.6% (2005: 25.7%) of the Group's turnover, for an increase of 17% over the corresponding Period last year. The segment result grew by 54.3% from the corresponding Period last year to HK$7,003,000.

The trading business improved on the back of the sales recovery of Gluthion, the Group's pivotal product. In addition, the new product Artrodar has already entered the latter phase of its market introduction Period and has been adopted by more than a hundred AAA hospitals all over the country.

To prepare Artrodar for listing in the National Medical Insurance Catalogue, the marketing department commenced clinical safety trials for the drug during the Period. Under the trials, 300 cases throughout the country will be studied. Artrodar is a specialised and ground-breaking drug used in the treatment of osteoarthritis. As the first IL-1 inhibitor developed in the world, the drug not only eases the symptoms of osteoarthritis but also fundamentally reverses the development of the disease. Artrodar is safe for long-term administration and has unrivalled advantages when compared with similar products. As the sole agent of Artrodar in China, the Group is set to benefit next year from the product's substantial profit contribution to the trading segment.

As the Group continues to step up its marketing effort to promote specialised drugs in the domestic market and engage in international cooperation, it will further introduce specialised drugs from Europe in its core therapeutic categories and strengthen cooperation through regional strategic alliances.

Health Care Products

During the Period, revenue from health care products accounted for 4.2% (2005: 4.9%) of turnover, or HK$4,135,000 (2005: HK$4,589,000), down 9.9% from the corresponding Period last year. The segment recorded a loss of HK$342,000, mainly attributable to the short-term fluctuations caused by the Group's adjustment of its strategy in the health care market.

The marketing department repositioned its product brands in early 2006 and putting "Qi Xue Tong" as the health care unit's flagship product. In addition to launching an advertising campaign through channels such as TV, magazines and the Internet to promote "Qi Xue Tong", the department cooperated with a large distributor to increase the product's market penetration. This year and next year will be critical for brand-building, management expects that brand value may gradually be realised in 2007.

Pharmaceutical Bulk Materials

Jiangsu Jiwa Rintech Pharmaceutical Company Limited, the Group's bulk material plant in Jiangsu, completed the first phase of the trial production of Citalopram, the first product of the pharmaceutical bulk materials unit. The trial production basically achieved the objectives of testing the synthetic technique in producing Citalopram, supplementing and improving the relevant technique parameters according to the requirements of the FDA and producing Citalopram products that comply with the USP standard of the US. The production workshop is now preparing for the second phase of trial mass production according to the Company's strategic plan. All of the relevant work has commenced in sequence. It is expected that the DMF application document will be formally submitted to the FDA in the US and the products will be officially produced and launched for sale in December, 2006; the GMP certificate will be awarded by China in the second quarter of 2007 and the FDA certificate will be awarded by the US by the end of 2007 or early in 2008.

Citalopram is mostly sold to the North American and European markets; therefore, the Group introduced new technology from the US and Europe in developing the product in order to enhance its competitiveness and enable it to demonstrate advantages such as higher quality, more advanced production techniques and complying with the USP2009 standard of the US. All of these factors help to ensure that the product's quality meets clients' requirements. As the only domestic manufacturer applying for the FDA certificate, the enterprise will benefit from a broader target market and a wider selection. Following the success of the trial production, the marketing and sales department is gradually implementing sales strategies devised earlier and proactively exploring both domestic and overseas markets.

As Jiangsu Jiwa Rintech has not commenced production, the pharmaceutical bulk material segment recorded a loss of approximately HK$2,382,000 during the Period.

Improving Efficiency and Reducing Cost

Management set out this year's annual development directives of "controlling costs, promoting sales, optimising business processes and enhancing training" in early 2006. In fact, the heads of the relevant departments have put much effort in optimising business processes in an attempt to improve efficiency and control costs. The Group also stepped up training for staff with high potential, to enhance professionalism, which is conducive to promoting sales.

During the Period, the Group experienced a recovery in sales growth and cost control measures began to bear fruit. While sales grew at a rate of 5.1%, selling expenses declined by 15.2% from the corresponding Period last year to HK$10,572,000. Administrative expenses increased 7.3% over the corresponding Period last year to HK$18,285,000, mainly attributable to expense of the bulk material plant. Financing costs and other operating expenses were HK$1,204,000 and HK$643,000, representing declines of 39.2% and 50.6%, respectively. The Group has entered a Period of benign growth.

Measures to Optimise Quality and Efficiency

In order to address the Company's business expansion and the promotion of product exports, the Kunming production headquarters implemented a series of optimisation measures during the Period to improve quality management standards and production efficiency.

The Group optimised and upgraded its key production lines by installing two high-speed box-packaging machines and improving the flow and connection of each unit. This automates the production of the powder for injection and the small volume parenteral solution during the entire process, from jar washing, manufacturing to packaging. Product quality is better guaranteed and the workshop's production efficiency is enhanced.

The Group also improved day-to-day GMP management. In view of China's cGMP implementation and in an attempt to step up training of key management staff, the Group further regulated and improved the GMP examination and rectification process based on cGMP standards. The Group achieved remarkable progress in enhancing product quality assurance, while receiving outstanding recognition in the State project GMP review.

Management believes that "product quality" is one of the Group's most competitive edges. By reviewing and enhancing quality management standards and production efficiency from time to time, the Group is able to lay a solid foundation for the exploration of its product export business during the next stage.

Marketing Measures

The Chinese pharmaceutical market has been committed to combating bribery activities in business in recent years. As a result, hospitals have become more cautious in the selection of new drugs and the market introduction periods for new drugs have been lengthened. Notwithstanding, the Group succeeded in significantly enhancing its capability to withstand market risk by optimising its marketing and sales network and implementing new sales strategies. Additionally, the Group achieved strong growth even under a more difficult operating environment. The move to combat bribery in business helps to better regulate the pharmaceutical industry and is favourable to the Group's development.

During the Period, the marketing department implemented a series of measures to more rapidly expand the coverage of the clinical promotion team. The Group also established 15 offices dedicated to promoting recently launched drugs. The Group's academic-oriented approach in brand building was first implemented in central cities, and then proceeded to peripheral areas. Such a strategy helped lay a solid foundation for the rapid growth of its new products in the next year. Besides deploying personnel to regions where the Group has no presence, the channel sales team conducted examinations of ordinary drugs and pivotal drugs, simplified the examination items and designated pivotal drugs that would be the focus of future development. For the first time, the product department was fully involved in providing academic support to agents on pivotal products, so as to further trade cooperation between the company and the agents.

Looking Ahead

Adopt Proactive Approach in the Second Half of the Year

The year 2005 was difficult and challenging for the Group as a whole. While being affected by the price reduction policy imposed on the industry by the State, the Group also had to face transitional problems arising from the relocation of its production headquarters. After more than a year of adjustment, the Group fully resumed its operation with an even higher production standard, larger scale, a more comprehensive marketing and distribution system and a more scientific management system. Management believes that the optimisation of the operating conditions will enable the Group to fully prepare itself and be well positioned for the opportunities brought about by the standardisation of the Chinese medical system.

Management also believes that the Group will be well-positioned capture the enormous opportunities arising from the demand for quality pharmaceutical bulk materials from the European and US pharmaceutical markets.

During the second half of the year, the Group will continue to pursue its development in two major areas. On the one hand, the Group will step up and accelerate the promotion of new drugs to achieve a breakthrough in sales and will proactively look into opportunities to sell its pharmaceutical preparations in other developing countries. On the other hand, the Group will stay abreast of the European and US pharmaceutical bulk material markets, ensure that Jiangsu Jiwa Rintech complies with the requirements of the FDA in the US and actively explore the pharmaceutical bulk material market.

The Group believes that its various strategic positioning and investments during the past few years will gradually bear fruit in 2007 and the Group will adopt more proactive strategies to accelerate its development.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 September 2006 (2005: nil).

FINANCIAL REVIEW

Liquidity

As at 30 September 2006, cash and cash equivalents of the Group totaled HK$21.1 million (31 March 2006: HK$27.7 million), of which 15.7% are in Hong Kong dollars, 26.7% in RMB, 51.2% in US dollars, 6.2% in Euro and 0.2% in Macau Pataca.

As at 30 September 2006, the Group had aggregate banking facilities of HK$154.1 million (31 March 2006: HK$158.1 million) of which HK$64.4 million (31 March 2006: HK$73.0 million) was utilised (as to HK$54.7 million in short term bank loans and as to the balance of HK$9.7 million in letters of guarantee issued by the relevant banks to independent third parties). The Group's aggregate banking facilities of HK$154.1 million includes HK$93.6 million equivalent in RMB denominated banking facilities. The utilized banking facilities of HK$64.4 million include approximately HK$46.3 million equivalent in RMB denominated bank borrowings.

The Group maintained cash and cash equivalents totaling approximately HK$21.1 million against aggregate utilized banking facilities of approximately HK$64.4 million as at 30 September 2006 to reserve funds for working capital.

As at 30 September 2006, the Group had current assets of HK$151.5 million (31 March 2006: HK$144.6 million) whilst current liabilities were HK$90.2 million (31 March 2006: HK$81.6 million).

The Group had capital commitments outstanding as at 30 September 2006 of HK$7.3 million (31 March 2006: HK$7.8 million). Funding for the Group's capital commitments would come from internally generated cash flows as well as bank borrowings.

Interest rate risk

The Group's bank borrowings are mainly denominated in RMB 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 30 September 2006, the gearing ratio was 15.7% (31 March 2006: 19.1%), calculated based on the Group's total bank borrowings of HK$54.7 million (31 March 2006: HK$64.7 million) over the Group's total assets of HK$348.2 million (31 March 2006: HK$339.2 million).

Foreign currency risk

The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 30 September 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 client's 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.

Charge on group assets

As at 30 September 2006, certain of the Group's assets with a net book value of HK$57.0 million (31 March 2006: 58.1 million) were pledged to a bank to obtain credit facilities.

Contingent liabilities

As at 30 September 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.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2006.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2006, the Group had a total of 594 employees (31 March 2006: 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 share options to eligible employees under its share option scheme.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 24 September 2003 whereby the Directors 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 on the date of grant and the average closing price of the shares on the Stock Exchange 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.

Details of the movement of the share options during the Period under the share option scheme are set out in Note 14 to the interim financial statements.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests in Shares

As at 30 September 2006, no Directors or chief executive of the Company, save as disclosed below, had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, which were notified to the Company and the Stock Exchange:

(i) Interests in issued Shares

Name of Director	Personal interests *(Note 1)*	Family interests	Share corporate interests	Total number of shares held	% of total issued shares
Lau Yau Bor	22,626,000	35,000,000 *(Note 2)*	280,000,000 *(Note 4)*	337,626,000	67.53%
Lau Kin Tung	2,266,000	–	35,000,000 *(Note 5)*	37,266,000	7.45%
Chan Hing Ming	–	302,626,000 *(Note 3)*	35,000,000 *(Note 6)*	337,626,000	67.53%

Notes:

1. The shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.

2. These shares are held by MINGS Development Holdings Limited which is wholly and beneficially owned by Chan Hing Ming, the spouse of Lau Yau Bor.

3. 280,000,000 Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming, 22,626,000 shares are held by Lau Yau Bor as beneficial owner.

4. These shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.

5. These shares are held by WHYS Holding Co. Ltd, the entire issued share capital of which is held by Lau Kin Tung.

6. These shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

(ii) Interests in underlying Shares

The directors and chief executive of the Company have been granted options under the Company's share option scheme, details of which are set out in Note 14.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interest or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Substantial Shareholders' Interests

As at 30 September 2006, the Company had not been notified by any person (other than the directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares as at 30 September 2006 which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading, "Directors' and Chief Executive's Interests in Shares" and "Share Option Scheme", at no time during the Period or up to the date of this report were there any rights to acquire benefits by means of the acquisition of shares in or debentures in the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance

The Company has complied with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of Stock Exchange during the Period.

Compliance with the Model Code for Securities Transactions

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors ("Model Code"). The Company, having made specific enquiry, confirms that all directors have complied with the required standards set out in Model Code throughout the six months ended 30 September 2006.

Audit Committee

The audit committee, comprising of the three independent non-executive directors of the Company, has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 September 2006.

APPRECIATION

On behalf of the Directors, I would like to express our gratitude to our shareholders and business associates for their continued support, and extend our sincere appreciation to all management and staff members of the Group for their ongoing dedication, commitments and contributions throughout the Period.

By Order of the Board
Lau Kin Tung
Vice Chairman and Chief Executive Officer

Hong Kong, 11 December 2006