# 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)

# Annual Report 2007

* for identification only

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# CORPORATE PROFILE



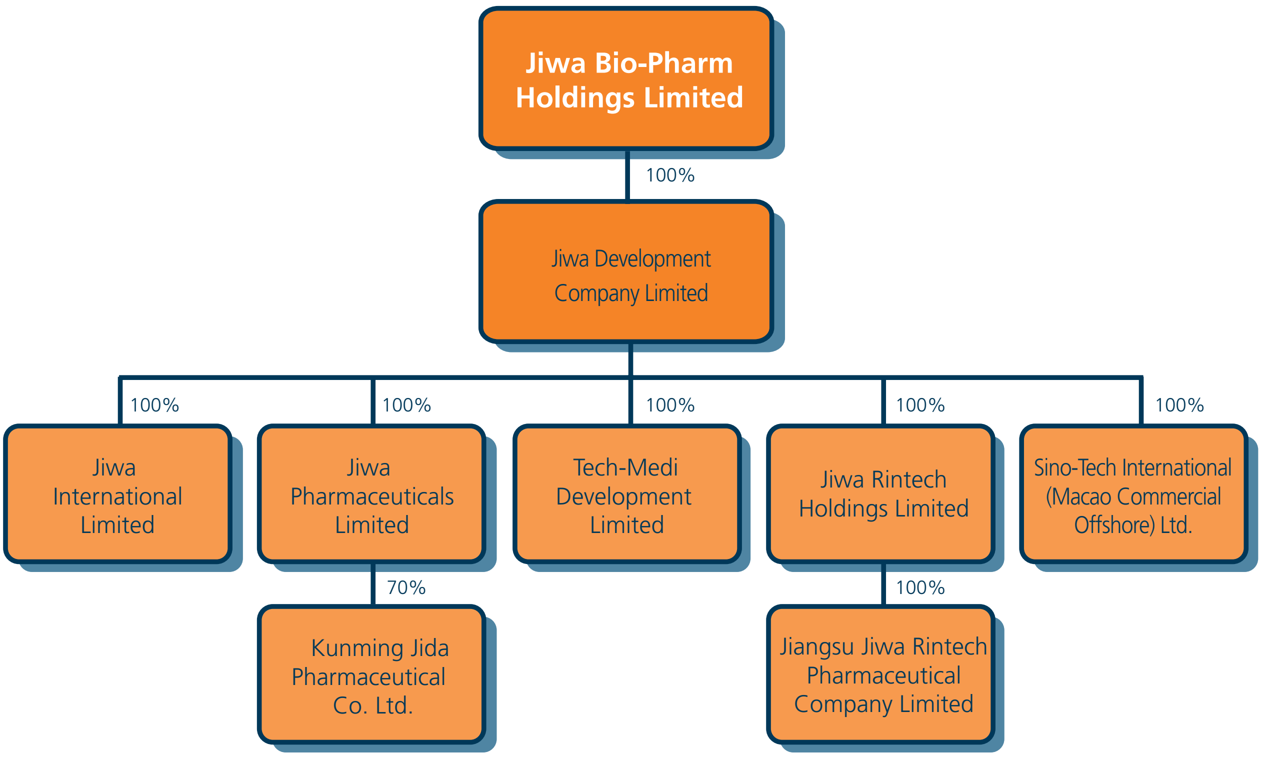
The core business of Jiwa Bio-Pharm Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") includes research, production and sales of pharmaceutical products, pharmaceutical bulk materials and Chinese health-care products. Apart from the PRC market the Group also devised strategies for its international expansion efforts into markets of U.S. and developing countries such as Vietnam, Thailand, Burma, Indonesia, Philippines and Columbia.

At the beginning of its establishment, the Group was principally engaged in the production and trading of anti-infectious and other specialized pharmaceutical products. In recent years, the Group has made strategic adjustments to its product mix and focused on developing drugs for five therapeutic categories in response to changing market demands and state policy changes in the PRC. In addition to the existing anti-infectious, gastro-intestinal and musculo-skeletal drugs, the group begun to develop cerebro-cardiovascular, anti-depressant and psychiatric disorder drugs.

Looking to enhance the capital return from its investments, the Group has also explored opportunities outside the pharmaceutical business, the Group's first move was an acquisition of an iron mining company which is expected to contribute to the Group's profit in the next financial year.

## CORPORATE STRUCTURE

(As at 31 March 2007)



# 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, FCPA)

## AUTHORISED REPRESENTATIVE (FOR THE PURPOSE OF THE LISTING RULES) AND PROCESS AGENTS (UNDER PART XI OF THE COMPANIES ORDINANCE)

Mr. Lau Yau Bor
Mr. Lau Kin Tung

## 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

## INVESTOR RELATIONS

Mr. Chu Kim Ho (FCCA, FCPA)
Telephone: +852 2810 8991
Fax: +852 2115 9832
Email: kelvin-finc-hk@jiwa.com.hk

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANY ORDINANCE

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
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

## COMPANY WEBSITE

www.jiwa.com.hk

## STOCK CODE

2327

# FINANCIAL HIGHLIGHTS



| | 2007<br>HK$'000 | 2006<br>HK$'000 | Change |
|---|---|---|---|
| **REVENUE** | | | |
| Pharmaceutical products | **143,014** | 119,386 | 20% |
| Trading pharmaceutical products | **56,422** | 42,869 | 32% |
| Health care products | **7,136** | 8,030 | -11% |
| | **206,572** | 170,285 | 21% |
| **OPERATING RESULTS** | | | |
| Pharmaceutical products | **32,535** | 18,818 | 73% |
| Trading pharmaceutical products | **7,201** | 5,302 | 36% |
| Health care products | **(868)** | 336 | -358% |
| Pharmaceutical bulk materials | **(5,048)** | (2,096) | -141% |
| | **33,820** | 22,360 | 51% |
| Unallocated operating income and expenses | **(375)** | (1,466) | |
| Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition | **—** | 4,986 | |
| Gain on disposal of property, plant and equipment and land use right | **1,713** | 2,482 | |
| **OPERATING PROFIT** | **35,158** | 28,362 | 24% |
| Finance cost | **(2,317)** | (3,757) | -38% |
| Income tax expense | **(5,786)** | (1,594) | 263% |
| **PROFIT FOR THE YEAR** | **27,055** | 23,011 | 18% |
| Attributable to: | | | |
| Equity holders of the Company | **21,060** | 19,459 | 8% |
| Minority interests | **5,995** | 3,552 | 69% |
| **PROFIT FOR THE YEAR** | **27,055** | 23,011 | 18% |
| **EARNING PER SHARE (Basic)** | **HK$0.0421** | HK$0.039 | 8% |

# CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Jiwa Bio-Pharm Holdings Limited, I am pleased to present the annual results of the Group for the year ended 31 March 2007 (the "Period" or the "Year").

## RESULTS

During the period, the Group continued to move forward in different areas such as optimization of product structure, enhancement of production technology and product quality, bringing along strong growth in sales and profits. For the year ended 31 March 2007, turnover increased by 21.3% to HK$206,572,000 as compared to the corresponding period last year, while operating profits before finance cost and tax recorded a significant increase of 23.9% to HK$35,158,000 as compared with last year, and profit attributable to equity holders increased by 8.2% to HK$21,060,000.

As in the past, the Board shall adhere to its dividend payout ratio of at least 25%. A final dividend of HK$0.012 per share of the Company ("Share") is proposed to be paid to the shareholders whose names appear on the register of members of the Company on 31 August 2007. In addition, bonus issue of shares is proposed on the basis of 2 bonus shares of nominal value HK$0.01 to be credited as fully paid for every existing share held by the shareholders whose names appear on the register of members of the Company on 31 August 2007. The required resolutions will be proposed at the forthcoming annual general meeting to be held on 31 August 2007 and a circular containing further information on the issue of bonus shares shall be dispatched to shareholders as soon as practicable.

All these measures reflect the Board's optimism towards the prospects of the Group.

## DEVELOPMENT OF THE PHARMACEUTICAL BULK MATERIAL BUSINESS

During the period, the pharmaceutical bulk material segment made remarkable progresses. We have for the first time successfully filed the During Master File (DMF) application with the U.S. Food and Drug Administration (FDA) and the State's Food and Drug Administration of the PRC (SFDA); construction of the production plant for Cephalosporine of the fourth generation will be completed in October 2007; the new drug Citalopram is preparing for trial production.

Our decision to enter the bulk pharmaceutical business is based on three major reasons:

1. To establish our core competitive strengths and realize long term cost advantages through leveraging on the production of self-developed new active pharmaceutical ingredients (APIs) in several categories.

2. More countries are now exercising regulatory control on APIs by regulating the pharmaceutical market. As a fully cGMP-compliant API manufacturer, the Group is well positioned to capture opportunities arising from this development.

3. The globalization of the pharmaceutical industry is driving the manufacturing of APIs and pharmaceutical intermediates worldwide to concentrate on a few developing countries. China is well position to benefit from this opportunity.

The above factors will become more apparent in this year. I expect this segment will be generating profits in the following financial year, and at the same time a concrete time table for FDA inspection will be finalized and production license will be granted from the SFDA. I am very confident that this segment will make significant profit contribution to the Group in the foreseeable future.

## EXPANSION OF THE PHARMACEUTICAL PREPARATIONS BUSINESS COVERAGE

During the period, our pharmaceuticals and trading segments recorded very encouraging results with substantial growth, building a broad and solid foundation for the Group's new drug development, quality and production management, as well as market coverage.

After the years of reform efforts, the PRC pharmaceuticals industry is growing to be healthier and more prosperous in the long run. In the process of industry consolidation, a more concentrated market structure will be formed, and industry regulation and standards will become more stringent and comparable to the EU and US standard, which in turn will facilitate entry into the overseas markets by the PRC companies.

Market consolidation, coupled with the growth in the absolute market size (it was generally predicted that China would rank top 6 or 7 in the global pharmaceutical market by 2010), provides ample opportunities for the Group to expand. With its present R&D and product portfolio, production and management capabilities, and our strengths in marketing and distribution, the Group is well prepared to capture these opportunities. Apart from the PRC market, we have also devised and laid down ground work for our international expansion efforts into a number of markets such as Vietnam, Thailand, Burma, Indonesia, Philippines and Colombia during the period, some of these efforts will start to bear fruit next year.

Yunnan has played a pivotal role in the development of the Grand Mekong River Sub-region Economic Cooperation, which is a regional cooperation among China (Yunnan), Vietnam, Burma, Laos, Thailand and Cambodia, with very rich natural resources and a market made of huge population. In addition, Asean and China will be establishing a free-trade area with Yunnan as the bridgehead of the area. With Yunnan being one of its production bases, and the fact that the Group is enlisted in the provincial government's "10 most important pharmaceutical plants to support", we are well-positioned exploit geographical advantages in the area, facilitating steady growth of the Group's businesses.

Building on our solid foundation and strong prospects, the Group will continue our efforts in strengthening our leading position in the pharmaceutical industry through organic growth and acquisition.

## STRATEGIC INVESTMENT

Looking to enhance the capital return from its investments, the Group has also explored opportunities outside the pharmaceutical business after due investigation and research. Our first move was entering the natural resources exploration industry that possesses strong potential. The first acquisition to be completed is the Shanxi Fanshi County Longchang Industrial Co., Ltd. ("Longchang Company") located in Shanxi Province. Demand for steel, and therefore iron ore, is soaring due to increased construction needs in the PRC, India and other development countries. Personally I think there is little chance for this trend to reverse in the mid term, and the project represents great potential. Longchang Company has already commenced production and is going to make cash and profits contributions to the Group. We intend to increase the annual capacity of the Company from 50,000 tons to 150,000 tons, while at the same time accelerate the exploration of more sites.

## CORPORATE GOVERNANCE

Last year, I wrote about our effort to promote the Group's corporate governance standards. During the period, we have engaged Horwath Risk Advisory Services Limited to conduct internal audit, and improvements were made following their recommendations. Our Remuneration Committee and Nomination Committee functioned smoothly, which I would like to thank the efforts of our INEDs.

During the period, our major subsidiary, Kunming Jida Pharmaceutical Company Limited ("Kunming Jida"), has initiated an Enterprise Resources Planning (ERP) project, which has minimized our operation risks, enhanced our responsiveness to market changes, promoted the trueness, accuracy and timeliness of our financial information. It also improved the management efficiency of the Company on the whole, as reflected from the lowered operation costs of the Company.

**ACKNOWLEDGEMENTS**

Over the past year, members of the Board and management have been working diligently for the development of the Company. All staff members united their efforts in striving hard in their own positions with the spirit of "Perfection through innovation and insight". These efforts were reflected in the achievement of the Group's development goals, as well as the numerous awards granted by the PRC government and the industry.

I would like to take this opportunity to express my deepest gratitude to our staff. On behalf of the Board, I would also like to sincerely thank the shareholders for their trust and support.

I am confident that with the dedicated efforts of my fellow directors, management and employees, the Group will achieve more impressive growth in the coming year.

**Lau Yau Bor**

*Chairman*

Hong Kong, 20 July 2007

## INDUSTRY OVERVIEW

In the year 2006, the growth rate of the pharmaceutical industry decelerated. According to the report *Pharmaceutical Industry 2006 Analysis and 2007 Forecast* released by the State Development and Reform Commission ("SDRC") in 2007, the accumulated industry sales of the pharmaceutical industry was RMB526.78 billion in 2006, whereas the total profits was RMB41.3 billion.

Currently, the China pharmaceutical industry is still undergoing consolidation in which different challenges would surface. Shortfalls in the original sales model, product structure, quality standards and other aspects of the industry are beginning to be exposed. Before reaping the fruits of the tremendous potential in the industry, adjustments in R&D, production and sales methods are inevitable for the pharmaceutical companies in order to survive the present reform of the pharmaceutical industry nationwide in the PRC and establish an advantageous position in the market. As the China pharmaceutical economy takes the road of standardization and centralization, the degree of independence and innovation of individual enterprises marks one of the most important factors for their prospect.

## BUSINESS REVIEW

### Segmental results

The Group sold 31 types of drugs in total during the Period, in which the anti-infectious, musculo-skeletal drugs and gastro-intestinal drugs accounted for about 35.58%, 33.01% and 25.51% of the total sales respectively. The Group is committed to the development of specialist drugs. Apart from musculo-skeletal and gastro-intestinal drugs, we are devoted to the research and development of cerebro-cardiovascular drugs, anti-depressants and psychiatric disorder drugs that involve higher technological contents.

Pharmaceutical products produced and sold by the Group ("Pharmaceutical Products") accounted for 69.2% of the total sales, while European pharmaceutical products distributed by the Group ("Trading Pharmaceutical Products") accounted for 27.3% and Chinese healthcare products produced by the Group ("Healthcare Products") took up 3.5% of the total sales during the Period. Production of the pharmaceutical bulk materials plant in Jiangsu Province, the PRC ("Pharmaceutical Bulk Materials") is expected to be delayed to the first half of 2008 as its infrastructure is required to make certain changes in response to the changes in the environmental protection policies of the State.

#### *Pharmaceutical Products*

During the Period, the total sales of Pharmaceutical Products amounted to HK$143,014,000, representing an increase of 19.8% over last year, while the segmental results was HK$32,535,000, representing an increase of 72.9% as compared to the corresponding period last year. New products Shi Si Tai, Huo Duo Shi and Jida Bente recorded an average margin of 58.3%, and that of anti-infectious products was 36.7%. At the beginning of last year, comprehensive review and reform of the Group's marketing system was implemented, since then, the efficiency of the marketing system was improved, paralleled by the academization of the marketing approach and the expansion in the market coverage. Enhancement of the marketing system and adjustments to the product structure have enabled a higher return amid the changes in the State's policies.

#### *Trading Pharmaceutical Products*

During the Period, turnover of Trading Pharmaceutical Products was HK$56,422,000, representing an increase of 31.6% over the previous year. Taking out the sales of properties accounted for last year, the segmental results of this year marked a significant increase of 35.8% as compared to the corresponding period last year. The successive raises in sales were mainly a result of return to full supply of Gluthion, the Group's core Trading Pharmaceutical Products, during the year, as well as the effect of deepened brand recognition. On the other hand, the other star patented product Artrodar, for which the Group is the sole agent, shall soon be listed on the National Medical

Reimbursement List ("National Medical Reimbursement List"), our product specialists have conducted comprehensive academic promotion for this product over the past year in an effort of brand-building, preparing for the key entry into the National Medical Reimbursement List. The Group is confident that this product would bring along significant contribution to our profits.

***Healthcare Products***

Turnover of Chinese healthcare products amounted to HK$7,136,000, representing a decrease of approximately 11.1% over last year, mainly due to the significant investment made for advertising. Last year, the management implemented major reform to the marketing system that focused on the retail market to promote our top healthcare product "Royal 2000 HHT" (Qi Xue Tong), with intensive promotion conducted through different channels to facilitate penetration into the pain therapeutic market. After a year's strategic promotional efforts, the brand's penetration was remarkably higher, improvement in market's perception was evident, and the public's understanding of "persistent pain" was deepened. All these would facilitate the sales of the product in the next phase.

***Pharmaceutical bulk materials***

During the period, the pharmaceutical bulk materials segment recorded a loss of HK$5,048,000, reflecting an increase in expenditures used for infrastructure construction. In response to stringent control of the State's environmental protection policies, infrastructures of the pharmaceutical bulk materials plant were required to undergo corresponding changes. The project in respect of Cephalosporine was scheduled to complete in October 2007, and it has already passed the inspection and obtained approval for environmental issues and fire protection. Filing for Cefpirome and other new drugs were accepted for processing by the State Food and Drug Administration of the PRC (SFDA) and are now pending for granting of production approval. At the same time, the Group has submitted the Drug Master File (DMF) of the new drug Citalopram to the FDA and has successfully obtained the registration number. The DMF of another new drug Risperidone will also be submitted in due course, building a solid foundation for the Group's entry into the international market.

## LAUNCH OF NEW DRUGS

During the period, the Group has obtained the production approval for Buflomedil Pyridoxal Phosphate. This drug has shown remarkable results in the prevention and treatment of cerebrovascular diseases and related symptoms, peripheral vascular diseases and related symptoms, and intermittent claudication, with mild side-effects. It is the upgraded product of Buflomedil Hydrochloride, possessing "double-effect" structure and compound functions.

In the forthcoming year, the Group will continue to refine its product portfolio. Products to be launched in the years 2007 and 2008 include mainly musculo-skeletal drugs, cerebro-cardiovascular drugs, anti-depressants and psychiatric drugs, such as Risedronate Sodium oral preparations, Edaravone injection preparations, Citalopram oral preparations, Hydrocortisone Sodium Succinate injection preparations, Cefpirome bulk materials and Citalopram bulk materials.

The management is confident that the launch of these products will generate significant return and invigorate the development of the Group.

## EQUITY TRANSFER AND ACQUISITIONS FOR THE YEAR

**Changes in Equity**

On 22 February 2007, 20% interests in Jiwa Rintech Holdings Limited ("Jiwa Rintech") held by Rintech Inc. was transferred at no consideration to Jiwa Development Limited (wholly-owned subsidiary of the Group) which holds 80% interests of the company as Rintech Inc. failed to perform the terms of the shareholder agreement entered into on 8 December 2004.

**Acquisitions**

Always taking the pharmaceutical business as its core, the Group has also actively participated in projects generating high capital returns and leveraged on the capital investment platform to bring along higher returns for its shareholders. After sufficient investigation and research, the management is of the view that the resources market in the PRC has the potential to generate attractive return under the present huge demand, and therefore has chosen the iron mining business as its first move.

In June 2007, the Group purchased 70% equity interests in Shanxi Fanshi County Longchang Industrial Co., Ltd. ("Longchang") at RMB24,500,000, acquiring the rights to exploitation of iron ores reserve. The partner of 30% equity interest in Longchang has provided a guarantee to the Group that the deposit of iron ores held by Longchang will not be less than 10 million tons.

In the recent years, the steel production capacity in the PRC has approached its full potential, driving up the demand for iron ores tremendously. According to the report by the State Development and Reform Commission, the average price of iron ores in the PRC was RMB777 per ton during January to May 2007. According to industry insiders, the commodity price of PRC-produced iron ores has increased by 17% compared to the beginning of the year. Steel enterprises in China are increasing the use of domestic iron, driving up the demand and prices, promising a brilliant future for the industry. The Group is very optimistic about the return of the project.

## PROSPECTS

After consolidation measures implemented on the China pharmaceutical market by the State government during the past years, the operation environment of the market has seen significant purification that is beneficial to the long term development of the entire industry. In 2007, the PRC government has planned to increase the amount to be used in healthcare and hygiene from RMB16.74 billion to RMB31.28 billion, representing an increase of approximately 86.9%; trial points of the new rural cooperative medical system have extended to over 80% counties and municipals. The Central Government increased the subsidy for farmers participating in the new rural cooperative medical system from RMB10 to RMB20, the new system will be raising the volume of the entire pharmaceuticals market. These macro control measures are highly advantageous for the development of the Group's pharmaceutical business. With the objective to capture the enormous market demand, the Group will concentrate its efforts on promoting the new drugs and accelerating the registration of the drugs under R&D in the coming year.

During the last few years, the Group has aggressively explored unique models for strategic development, looking for new breakthroughs in respect for the exploration of the international market. The management strategically focused on the export of pharmaceutical bulk materials to Europe and the United States, with the objective to gradually moving upstream from pharmaceutical bulk materials to preparation products. Meanwhile, we have also proactively explored the preparations market in the developing countries. At the beginning of the year, the vice-chairman of the Group was invited to join the "Economic and Trading Representative Group of the Yunnan Province to the Lantsang-Mekong Sub-Region" to visit the five countries in the Sub-region, namely Burma, Laos, Vietnam, Thailand and Cambodia, paving the way for the Group's entry into the Asean market.

On the other hand, seeking for development in the overseas market, the Group has after prolonged preparation applied for GMP certification from Columbia. In June 2007, the Columbia GMP certification experts conducted stringent GMP inspections to the Group's preparation production base in Kunming in accordance with the standards of the World Health Organization. Consequently, all the oral preparation production lines successfully obtained certification, creating new prospects for our product export business.

Striving to capture the opportunities in the prospering pharmaceutical bulk materials market, our technology department has in accordance with the Company's development strategy formed a dual-focus roadmap that takes Cephalosporine, and anti-depressants and psychiatric disorder drugs as the two engines for our new integrated international and domestic development.

In the forthcoming year, the pillar business of the Group in pharmaceuticals will continue to be based in the PRC for R&D, production and marketing, meanwhile aggressively exploring the market in developing countries. In addition, the management will also speed up the development of the newly acquired iron ore business. At the same time, it will continue to carefully review projects beneficial to the development of the Group in general, make appropriate capital investments, with the aim to maximize the return for our shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

### Liquidity

As at 31 March 2007, cash and cash equivalents of the Group totaled approximately HK$27.2 million (2006: approximately HK$27.7 million), of which approximately 10.77% are in Hong Kong dollars, 56.79% in RMB, 32.15% in US dollars, 0.06% in Euro and 0.23% in Macau Pataca. The decrease in cash and cash equivalents over last year is mainly a result of early repayments of bank loans during the year to lower the finance costs; which had been reduced by 38.3% as compared to the same period last year.

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

As at 31 March 2007, the Group had aggregate banking facilities of approximately HK$90.0 million (2006: approximately HK$158.1 million) of which approximately HK$66.3 million was utilized (2006: approximately HK$73.0 million) as to approximately HK$11.9 million in long term bank loans, as to approximately HK$44.2 million in short term bank loans, as to the balance of approximately HK$10.2 million in letter of credit issued by the relevant banks to independent third parties. The Group's aggregate banking facilities of approximately HK$90.0 million include approximately HK$50.5 million equivalents in RMB denominated banking facilities. The utilized banking facilities of approximately HK$66.3 million includes approximately HK$44.4 million equivalent in RMB denominated bank borrowings.

### Interest rate risk

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

As at 31 March 2007, the gearing ratio was approximately 15.2% (2006: approximately 19.1%), calculated based on the Group's total bank borrowings of approximately HK$56.1 million (2006: approximately HK$64.7 million) over the Group's total assets of approximately HK$366.7 million (2006: approximately HK$339.2 million). The decrease in gearing ratio reflects the Group's efforts in containing finance costs in a rising interest rate environment.

### Foreign currency risk

The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 31 March 2007 and actively monitors its net foreign currency exposures. As the bulk of the Group's transactions and assets are denominated in HK dollars, US dollars and RMB, the impact of foreign currency fluctuations is minimal and the current hedging facilities are considered sufficient for the near future.

### Credit risk

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

## CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2007 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Contracted for | | |
| — acquisition of technical know-how | **2,607** | 990 |
| — acquisition of property, plant and equipment | **2,342** | — |
| | **4,949** | 990 |
| Authorised but not contracted for | | |
| — acquisition of property, plant and equipment | **5,140** | 6,885 |
| | **10,089** | 7,875 |

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

## CHARGE ON GROUP ASSETS

As at 31 March 2007, bank loans amounting to approximately HK$44.4 million (31 March 2006: 55.3 million) were secured by certain assets of the Group having a net book value of approximately HK$73.1 million.

## CONTINGENT LIABILITIES

As at 31 March 2007, the Group has not provided any form of guarantees for any company outside the Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

## EMPLOYMENT REMUNERATION POLICY

As at 31 March 2007, the Group had approximately 510 employees. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant options to eligible employees under its share option scheme.

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2007.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, manufacturing and sales of pharmaceutical products and health care products. The principal activities and other particulars of the subsidiaries are set out in note 22 to the financial statements.

The analysis of the principal activities of the Group during the financial year are set out in note 6 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchase** |
| The largest customer | 34.07% | |
| Five largest customers in aggregate | 79.53% | |
| The largest supplier | | 21.33% |
| Five largest suppliers in aggregate | | 52.48% |

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2007 and the state of the Group's affairs as at that date are set out in the financial statements on pages 30 to 73.

## RESERVES

Profits attributable to shareholders of the Company, before dividends, of approximately HK$21.1 million (2006: approximately HK$19.5 million) have been transferred to reserves. Details of the movements in the reserves of the Company and the Group during the year are set out in the financial statements on page 37.

## DIVIDENDS

The Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the financial year ended 2005.

No interim dividend was declared by the Company during the year ended 31 March 2007. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 31 August 2007, the payment of a final dividend for the year ended 31 March 2007 of HK$0.012 per share in cash to be paid on or about 14 September 2007 to the shareholders of the Company whose names appear on the register of members of the Company on 31 August 2007.

## BONUS ISSUE OF SHARES

The Board proposes to make a bonus issue on the basis of two new ordinary share of HK$0.01, credited as fully paid, for every one existing share held by the shareholders of the Company whose names are on the register of members of the Company on 31 August 2007. The necessary resolution will be proposed at the forthcoming annual general meeting of the Company to be held on 31 August 2007 and if passed, share certificates for the bonus shares will be posted on Friday, 14 September 2007. A circular containing, among other things, further details of the bonus issue will be dispatched to the shareholders of the company as soon as practicable. All these measures reflect the Board's optimism towards the prospects of the Group.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 24 August 2007 to Friday, 31 August 2007, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend and the bonus shares, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 23 August 2007.

## PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment of the Group for the year ended 31 March 2007 are set out in note 16 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 32 to the financial statements.

## DIRECTORS

The Directors of the Company during the year were:

### Executive Directors

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

### Non-Executive Directors

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

Pursuant to the Bye-law 87 (1) of the Company, each director is required to retire by rotation once every three years and that one-third (or the number nearest to one-third but not less than one-third) of the directors shall retire from office by rotation at each annual general meeting of the Company. Accordingly, Madam Chan Hing Ming and Mr. Choy Ping Sheung will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## DIRECTOR'S SERVICE CONTRACTS

Mr. Lau Yau Bor, Mr. Lau King Tung and Madam Chan Hing Ming have entered into service contracts with the Company respectively for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year. All executive directors' appointments are subject to termination by either party giving not less than six months' notice in writing.

Mr. Choy Ping Sheung, Mr. Fung Tze Wa and Mr. Seet Lip Chai have been appointed as an Independent Non-Executive Director since 1 September 2003, 1 September 2004 and 1 September 2005, respectively, their service contracts were renewed for a term of one year, which commenced on 1 September 2006. Mr. Choy, Mr. Fung and Mr. Seet's appointments are subject to termination by either party giving not less than two months' notice in writing.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors and chief executive of the Company who held office as at 31 March 2007 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the SFO) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

**Interests in issued Shares**

| Name of Director | Personal interests (Note 1) | Family interests | 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.

**Interests in underlying Shares**

The directors and chief executive of the Company have been granted options under the Company's share option scheme (the "Share Option Scheme"), details of which are set out in the section "Share Option Scheme" below.

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 interests 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 the SFO or as otherwise notified to the Company pursuant to the Model Code.

## SHARE OPTION SCHEME

The Share Option Scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any suppliers, consultants or advisers who have provided services to any company in the Group to take up options to subscribe for Shares. The Share Option Scheme shall be valid and effective for a period of ten years ending on 24 September 2013, after which no further options will be granted. 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 (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 total number of securities available for issue under the Share Option Scheme as at 31 March 2007 was 50,000,000 Shares, which represented 10% of the issued share capital of the Company as at 31 March 2007.

As at 31 March 2007, three directors of the Company had the following interests in options to subscribe for Shares granted for a consideration of HK$1 under the Share Option Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one Share.

| Name of Director | Capacity | Date of grant | Number of share option | Exercise period | Exercise price per share | % of total issued Shares |
|---|---|---|---|---|---|---|
| Lau Yau Bor | Personal interest | 29 December 2004 | 5,000,000 | 29/12/04-28/12/09 | HK$0.336 | |
| | | 12 April 2006 | 5,000,000 | 12/04/06-11/04/11 | HK$0.280 | |
| | | | 10,000,000 | | | 2% |
| Lau Kin Tung | Personal interest | 12 April 2006 | 5,000,000 | 12/04/06-11/04/11 | HK$0.280 | |
| | | | 5,000,000 | | | 1% |
| Chan Hing Ming | Personal interest | 29 December 2004 | 5,000,000 | 29/12/04-28/12/09 | HK$0.336 | |
| | | 12 April 2006 | 5,000,000 | 12/04/06-11/04/11 | HK$0.280 | |
| | | | 10,000,000 | | | 2% |

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2007, 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 Share as at 31 March 2007 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.

## CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 36 to the financial statements also fell under the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below. The Company has compiled with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

(1) Jiwa International Limited, a wholly-owned subsidiary of the Company, entered into the Albany Tenancy Agreement, the Lippo Tenancy Agreement and the Car Park Licence Agreement with Jiwa Investment Limited. Jiwa International also entered into the Robinson Tenancy Agreement with Mr. Lau Yau Bor ("Mr. Lau"). Jiwa Investment is wholly owned by Mr. Lau and his associates, Mr. Lau is a Director and a substantial shareholder of the Company. Mr. Lau and Jiwa Investment are therefore connected persons of the Company under the Listing Rules. Content of the agreements is summarised below:

**(i) The Albany Tenancy Agreement**

| | | |
|---|---|---|
| Date of agreement | : | 1 May 2006 |
| Landlord : | : | Jiwa Investment |
| Tenant | : | Jiwa International |
| Premises | : | Apartment A1 (also known as Apartment C), 21st Floor and Car Park No. 21 on 4th Floor (Carpark Level 5), The Albany, No. 1 Albany Road, Hong Kong with a total gross floor area of approximately 201 square metres |
| Term | : | two years commencing from 1 May 2006 to 30 April 2008 (both days inclusive) |
| Annual rental | : | HK$960,000 (HK$80,000 per month) |
| Payment method | : | Payable monthly in advance on the first day of each calendar month |

**(ii) The Robinson Tenancy Agreement**

| | | |
|---|---|---|
| Date of agreement | : | 1 September 2006 |
| Landlord : | : | Mr. Lau |
| Tenant | : | Jiwa International |
| Premises | : | Apartment A on 22th Floor and Car Parking Space No. 7 on 4th Floor of Regal Crest, No. 9 Robinson Road, Hong Kong with a gross floor area of approximately 215 square metres. |
| Term | : | two years commencing from 1 September 2006 to 31 August 2008 (both days inclusive) |
| Annual rental | : | HK$576,000 (HK$48,000 per month) |
| Payment method | : | Payable monthly in advance on the first day of each calendar month |

**(iii) The Lippo Tenancy Agreement**

| | | |
|---|---|---|
| Date of agreement | : | 1 September 2006 |
| Landlord : | : | Jiwa Investment |
| Tenant | : | Jiwa International |
| Premises | : | Office 4, 29th Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong with a total gross floor area of approximately 150 square metres |
| Term | : | two years commencing from 1 September 2006 to 31 August 2008 (both days inclusive) |
| Annual rental | : | HK$660,000 (HK$55,000 per month) |
| Payment method | : | Payable monthly in advance on the first day of each calendar month |

**(iv) The Car Park Licence Agreement**

| | | |
|---|---|---|
| Date of agreement | : | 1 September 2006 |
| Licensor | : | Jiwa Investment |
| Licensee | : | Jiwa International |
| Subject of the licence | : | Car Parking Space No. 8, Upper Basement "1", Botanical Court, No. 5 Caine Road, Hong Kong |
| Term | : | two years commencing from 1 September 2006 to 31 August 2008 (both days inclusive) |
| Annual licence fee | : | HK$36,000 (HK$3,000 per month) |
| Payment method | : | Payable monthly in advance on the first day of each calendar month |

The aggregate rental and licence fee under the Albany Tenancy Agreement, the Robinson Tenancy Agreement, the Lippo Tenancy Agreement and the Car Park Licence Agreement, will be subject to the following annual cap and shall not exceed:

(a) HK$1,622,000 for the year ending 31 March 2007;

(b) HK$2,232,000 for the year ending 31 March 2008; and

(c) HK$610,000 for the year ending 31 March 2009.

(2) On 2 October 2003, the Company obtained from the Stock Exchange a waiver from strict compliance with the disclosure requirements under Chapter 14A of the Listing Rules in respect of certain continuing connected transaction between Kunming Jida and Yunnan Jiwa Pharm Logistics Co. Ltd. ("Yunnan Jiwa", a 93% owned subsidiary of Jiwa Pharm & Chemical, which is beneficially owned as to 60% by Lau Yau Bor and as to 40% by Lau Kin Tung, directors of the Company), and the transaction between Kunming Jida and Yunnan Pharmaceutical and Industrial Corporation Limited ("Yunnan Pharmaceutical", a substantial shareholder of Kunming Jida). The waivers were expired on 31 March 2005 and 31 March 2006 for each of the transactions respectively. As these transactions will be carried out in the usual and ordinary course of business of the Group, the Group has entered into new agreements with Yunnan Pharmaceutical on 1 November 2006, and with Yunnan Jiwa on 1 February 2007.

Kunming Jida is principally engaged in the research, development, manufacture and sale of pharmaceutical products. Yunnan Pharmaceutical has its own distribution throughout the PRC market and Yunnan Jiwa is currently one of the renowned distributors of pharmaceutical products in Yunnan Province, the PRC. The Directors are of the view that that it is beneficial to the Group to enter into the transactions as the Group can leverage on the distribution network of Yunnan Jiwa and Yunnan Pharmaceutical to penetrate the PRC market without incurring material capital investment.

The cap amount for the transactions entered into between Kunming Jida and Yunnan Pharmaceutical in respect for each of the years ended 31 March 2007, 31 March 2008 and 31 March 2009 will not be more than HK$9.5 million.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms; and

(c) in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company provided a confirmation in respect of the continuing connected transactions in accordance with the Listing Rules.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or anytime during the year save and except for the agreements as stated in the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus and in note 36 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2007 are set out in note 28 to the financial statements.

## GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74 of the annual report.

## RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund scheme for its employees in Hong Kong and participates in a defined contribution retirement scheme organized by the PRC municipal government for its PRC employees. Particulars of these retirement schemes are set out in note 3(q) to the financial statements.

## POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 38 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in respect of the shares of the Company under the Company's Bye-Laws, or the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors of the Company, the percentage of the Shares which are in the hands of the public exceeds 25% of the total number of issued Shares.

## AUDITORS

The term of office of Grant Thornton will expire at the forthcoming Annual General Meeting. A resolution for the re-appointment of auditors of the Company for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors

**Lau Kin Tung**
Vice Chairman and Chief Executive Officer

Hong Kong, 20 July 2007

The Board of Directors considers that good corporate governance practices are crucial to the effective management of the Group. The Company is committed to the transparency, accountability and independence highlighted by the principles of the Code Provisions in accordance with the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to protect the rights of shareholders and stakeholders, enhance shareholder value and ensure proper management of corporate assets.

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors is of the opinion that during the financial year ended 31 March 2007 (the "Period"), the Company had applied the CG Code as set out in the Listing Rules.

## DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Own Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code of Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules.

On specific enquiries made, all directors have confirmed that, for the year ended 31 March 2007, they have complied with the required standard set out in the Model Code and the Own Code.

## BOARD OF DIRECTORS

### Composition of the Board

The Composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

During the Period, the Board of Directors consists of three Executive Directors and three Independent Non-Executive Directors with a variety of experience in management, marketing, R&D, accounting and finance; their brief biographical particulars and their relationship among the Board are set out on pages 25 to 26 respectively of this annual report. The detailed composition of the Board of Directors and the respective Board meetings held in the current year is as follows:

| Board members | Attendance |
|---|---|
| ***Executive Directors*** | |
| Mr. Lau Yau Bor (the Chairman) | 4/4 |
| Mr. Lau Kin Tung (the Vice Chairman and Chief Executive Officer) | 4/4 |
| Madam Chan Hing Ming | 4/4 |
| ***Non-Executive Directors*** | |
| Mr. Choy Ping Sheung | 4/4 |
| Mr. Fung Tze Wa | 4/4 |
| Mr. Seet Lip Chai | 4/4 |

The Company has appointed sufficient numbers of Independent Non-Executive Directors in accordance with the Listing Rules, including those with accounting and finance expertise. They have dedicatedly provided the Company with professional advice with respect to the steady operation and development of the Company. They also exercise supervision and coordination to safeguard interests of the company and its subsidiaries.

The Company has received written annual confirmation from each Independent Non-Executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent in accordance with independence guidelines set out in the Listing Rules.

**The Operation of the Board of Directors**

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it.

Three board committees, namely, the audit committee, remuneration committee and nomination committee, have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-today management and operations of the Group's businesses to management of the Company and its subsidiaries.

The board had met four times during the Period to discuss and formulate overall strategies for the Group, review the financial performance, as well as other significant matters when board decisions were required.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lau Yau Bor is the Chairman of the Company and is mainly responsible for the management of the Board. Mr. Lau Kin Tung is the Chief Executive Officer of the Company and is delegated with the authority and is responsible for day-to-day management of the Group's business, and the implementation of the approved strategies in achieving the overall business objectives.

## NON-EXECUTIVE DIRECTORS

Each of the Non-Executive Directors has entered into a service contract with the Company for a term of one year or till retirement by rotation in accordance with the Bye-laws of the Company, whichever is earlier.

## REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee on 1 September 2005 with written terms of reference as disclosed on the Company's website. The Remuneration Committee is responsible for formulating and recommending remuneration policy to the board and determining the remuneration of executive directors and members of senior management, as well as reviewing and making recommendations on the Group's share option scheme, bonus structure, provident fund and other compensation-related issues. The committee shall consult with the Chairman on its proposals and recommendations, and has access to professional advice if deemed necessary.

During the year under review, the members of Remuneration Committee are Mr. Choy Ping Sheung, Mr. Fung Tze Wa and Mr. Seet Lip Chai, all Independent Non-executive Directors. Mr. Choy Ping Sheung is the Chairman of the remuneration committee.

During the Period, the Remuneration Committee had held 1 meeting. Attendance of each individual member was as follows:

| Committee Member | Meeting Attended/Held |
|---|---|
| Mr. Choy Ping Sheung (Chairman) | 1/1 |
| Mr. Fung Tze Wa | 1/1 |
| Mr. Seet Lip Chai | 1/1 |

The emolument policies of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details on the emolument payable to the Directors and the Company's share option scheme are disclosed on page 56 and page 57 of this annual report.

## NOMINATION OF DIRECTORS

The Company established a Nomination Committee on 1 September 2005 with written terms of reference as disclosed on the Company's website. The Nomination Committee is responsible for reviewing and making recommendations to the board on relevant matters relating to the appointment, re-appointment and succession planning for the board members. The Nomination Committee has the responsibility to consider and access candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group.

During the Period, the members of Nomination Committee are Mr. Seet Lip Chai, Mr. Choy Ping Sheung, and Mr. Fung Tze Wa, all Independent Non-Executive Directors. Mr. Seet Lip Chai is the Chairman of the remuneration committee.

During the year, the Nomination Committee had held 1 meeting. Attendance of each individual member was as follows:

| **Committee Member** | **Meeting Attended/Held** |
|---|---|
| Mr. Seet Lip Chai (Chairman) | 1/1 |
| Mr. Choy Ping Sheung | 1/1 |
| Mr. Fung Tze Wa | 1/1 |

## AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company. During the Period, the Group is required to pay to the Auditors, Grant Thornton the following remuneration:

| **Nature of services** | HK$'000 |
|---|---|
| Audit services | 500 |

## AUDIT COMMITTEE

The Audit Committee members comprise Mr. Fung Tze Wa, Mr. Choy Ping Sheung and Mr. Seet Lip Chai, all Independent Non-Executive Directors. Mr. Fung Tze Wa is the Chairman of the Audit Committee who has appropriate professional qualifications and accounting expertise. No member of this committee is a member of the former or external auditors of the Company.

The audit committee's primary responsibilities include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the audit committee, which complies with the provisions of the Code. The terms of reference of the audit committee are available on the Company's website.

During the year, the Audit Committee had held 3 meetings. Attendance of each individual member was as follows:

| Committee Member | Meeting Attended/Held |
|---|---|
| Mr. Fung Tze Wa (Chairman) | 3/3 |
| Mr. Choy Ping Sheung | 3/3 |
| Mr. Seet Lip Chai | 2/3 |

## RESPONSIBILITY ON FINANCIAL REPORTING

Management provides financial information with explanation to the Board to assist the Board in assessing the financial position of the Company.

The board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to the statutory requirements. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibilities of Grant Thornton, the Company's auditors, are stated in the Independent Auditors' Report on page 28 of the Annual Report.

## INTERNAL CONTROL

During the year, the Board has engaged Horwath Risk Advisory Services Limited to perform internal audit functions and to assist the Board in reviewing the effectiveness of the internal control system of the Group.

The Board has the overall responsibility for maintaining an effective internal control system to safeguard assets against unauthorized use of disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensure compliance with applicable legislation and regulations.

## EXECUTIVE DIRECTORS

**Mr. Lau Yau Bor**, aged 69, is the Chairman, Executive Director and one of the founders of the Group. Mr. Lau is responsible for the overall strategic development and direction of the Group. Mr. Lau has over 25 years of experience in corporate management.

He is a specially appointed council member of Overseas Chinese in Hong Kong, Macau and Taiwan and Foreign Affairs Committee of the Chinese People's Political Consultative Conference of Yunnan Province, a vice chairman of Yunnan Province Association of Promotion of Foreign Economic Corporation, a vice chairman of Yunnan Province Foreign Investment Enterprises Association, a council member of Fraternity of Returned Overseas Chinese Businesses of the All-China Federation of Returned Overseas Chinese, a council member of China Enterprise Directors Association and an honourable professor of the Kunming Medical University. Mr. Lau graduated from the University of Hong Kong with a Master of Philosophy Degree in Engineering (1981).

Other than holding the directorship in the Company, Mr. Lau is also the director and shareholder of LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, which holds as to 56% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Jiwa International Limited, Kunming Jida Pharmaceutical Co., Ltd ("Kunming Jida"), Jiwa Rintech Holdings Limited ("Jiwa Rintech") and Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP") subsidiaries of the Company.

**Mr. Lau Kin Tung**, aged 37, is the Vice-Chairman, Chief Executive Officer and Executive Director of the Group. Mr. Lau joined the Group in June 1992. In 1993, Mr. Lau assisted in setting up Kunming Jida. Since then, Mr. Lau has been responsible for the international trading, research and development, sales and marketing aspects of the Group. Mr. Lau holds a Bachelor of Business Administration Degree from the University of Hong Kong (1992), a Master of Business Administration Degree from the University of Manchester (2002), and a Bachelor of Science Degree in Pharmaceutical Studies from the University of Sunderland (2003). Mr. Lau is the son of Mr. Lau Yau Bor, Chairman of the Company and Madam Chan Hing Ming, Director of the Company. Other than holding the directorship in the Company, Mr. Lau is also the director and shareholder of WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, which holds as to 7% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Tech-Medi Development Limited (Tech-Medi), Jiwa Development Company Limited, Kunming Jida, Jiwa Rintech, JJRP and Sino Tech International (Macao Commercial Offshore) Limited ("Sino Tech"), subsidiaries of the Group.

**Madam Chan Hing Ming**, aged 66, is one of the founders and an Executive Director of the Group. Madam Chan assisted in founding the Group and has been responsible for the international trading, marketing and financial aspects of the Group. Madam Chan also has over 25 years of experience in corporate management. Madam Chan is the spouse of Mr. Lau Yau Bor, the Chairman of the Group.

Other than holding the directorship in the Company, Madam Chan is also the director and shareholder of MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, which holds as to 7% of the shares of the Company; and the director of Jiwa Pharmaceuticals Limited, Tech-Medi, Jiwa International Limited, Kunming Jida, Jiwa Rintech, JJRP and Sino Tech, subsidiaries of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Choy Ping Sheung**, aged 59, is an Independent Non-Executive Director of the Group. Mr. Choy had held senior management positions in Nanyang Commercial Bank and the China and South Sea Bank (Hong Kong Branch). Mr. Choy obtained a Higher Certificate in Business Studies (Banking) from the Hong Kong Polytechnic in 1986.

Mr. Choy was appointed as an Independent Non-Executive Director of the Company in September 2003. Save as disclosed above, Mr. Choy does not hold any other directorship of any other listed company in the last three years.

**Mr. Fung Tze Wa**, aged 50, is an Independent Non-Executive Director of the Group. Mr. Fung is a certified public accountant and a director of an accounting firm in Hong Kong. Mr. Fung has more than 22 years experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. Since April 2004, he has also been appointed the Independent Non-Executive director of China Haidan Holdings Limited and New Capital International Investment Limited whose shares are listed on the Stock Exchange.

Mr. Fung was appointed as an Independent Non-Executive Director of the Group in September 2004. Save as disclosed above, Mr. Fung has not held any directorship in any listed public companies in the last three years.

**Mr. Seet Lip Chai**, aged 64, is an Independent Non-Executive Director of the Group. Mr. Seet holds degrees of Bachelor of Medicine and Bachelor of Surgery, a Diploma in Public Health (with Distinction) from the University of Singapore and is a Fellow of the Academy of Medicine, Singapore. Mr. Seet has held senior management positions in major global pharmaceutical companies such as Ciba-Geigy, SmithKline Beecham and GlaxoWellcome both in the Asian Region and in China prior to taking up an academic position as Associate Professor in Strategy and Entrepreneurship in Nanyang Technological University, Singapore in 1999. Besides holding Directorships in several private companies, Mr Seet is presently also an Independent Non-Executive Director and Non-Executive Chairman of Rockeby biomed Ltd, a medical diagnostic company listed on the Australian Stock Exchange (RBY.ASX).

Mr. Seet was appointed as an Independent Non-Executive Director of the Group in September 2005. Save as disclosed above, Mr. Seet has not held any directorship in any listed public companies in the last three years.

## SENIOR MANAGEMENT

**Mr. Chu Kim Ho**, aged 44, is the Financial Controllor and Company Secretary of the Group. Mr. Chu joined the Group in September 2006 and is currently responsible for the financial and accounting functions of the Group. Mr. Chu has over 20 years of experience in auditing, treasury, financial accounting and corporate financial consulting. Mr. Chu is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Chu holds a Bachelor Degree of Economics and Business Administration at the University of Hong Kong.

**Mr. Li Hong Xiang**, aged 53, is the Deputy General Manager of Kunming Jida. Mr. Li joined the Group in January 1994 and is currently in charge of the production and GMP management functions of the Group. Mr. Li is a Senior Engineer, he has over 22 years of experience in the pharmaceutical industry. Mr. Li completed professional studies in electrical engineering at Yunnan Broadcasting Television University in 1983 and advanced studies in business administration at Business Administration Studies Centre of the University of the People's Republic of China in 2001.

**Mr. Yu Qi**, aged 41, is the Marketing Director of Kunming Jida, he joined the Group in 2001, he has nearly 14 years experience in medicine industry. Mr. Yu holds a Master and a Bachelor of Medicine Degrees from the Second Army Medical University, he also holds a Master Degree in Business Administration from Shanghai Jiao Tong University.

**Ms. Liu Chun Xia**, aged 45, is the Quality & Technical Director of the Group. Ms. Liu joined the Group in March 1997 and is currently in charge of the quality assurance department of the Group. During 1983 to 1995, Ms. Liu held a position in the People's Republic of China ("PRC") Pharmaceutical Production Review Bureau. Ms. Liu is a Licensed Pharmacist and a Senior Licensed Manager and has received several awards from governmental authorities in the PRC, including the State Technological Advancement Award Grade II and the Second Prize in Technological Advancement in Public Health and Pharmaceutical by the Public Health Ministry of the PRC. Ms. Liu obtained a Bachelor of Science Degree from Yunnan University in 1983.

**Ms. Dong Yan Zhao**, aged 34, is the Senior Manager of Financial and Accounting Department of Kunming Jida. Ms. Dong joined the Group in November 2003, is currently responsible for the financial and accounting functions of the company. Ms. Dong has over 10 years of experience in auditing, accounting and financial management. Ms. Dong is a member of the Chinese Institute of Certified Public Accountants (CICPA), and a member of the Association of Chartered Certified Accountants (ACCA). Ms. Dong holds a Bachelor of Accountancy Degree from Renmin University of China in 1995 and a Master of Finance and Accounting Degree from University of Birmingham in UK in 2001.

**Ms. Feng Pu Chun**, aged 34, is the Director of the R&D department of Kunming Jida, she joined the Group in September 2001, she is in charge of new products R&D and governmental issues of the Group. Ms. Feng holds a Master of Business Administration Degree from Bering University of Post and Telecommunications in 2004 and a Bachelor of Medicine Degree form HeBei Medical University in 1996. She has nearly 11 years' experience in new medicines R&D and has engaged in management for nearly 8 years. Ms. Feng also acts as member of Chinese Prices Society.

**Ms. Xu Xin Fang**, aged 45, is the Senior Manager of Production Department of Kunming Jida. Ms. Xu joined the Group in March 1994 and is currently in charge of the production division of the Group. During 1986 to 1994, Ms. Xu held a position in North China Pharmaceutical Corporation (NCPC). She has over 21 years of experience in the pharmaceutical industry. Ms. Xu graduated from Shenyang Pharmaceutical University in 1986, with a Bachelor of Science Degree.

**Mr. Wang Chang Wen**, aged 39, is the Senior Manager of Engineering Department of Kunming Jida. Mr. Wang joined the Group in July 2004, he is in charge of overall management of the engineering department. He graduated from East China Institute of Chemical Technology in 1989, with a Bachelor's Degree in Engineer and the title of medical engineer. Mr. Wang has over 17 years' experience in the instrument and engineering management of pharmaceutical enterprises.

**Mr. Weng Zi Zhong**, aged 43, is the Deputy General Manager of Jiangsu Jiwa Rintech. Mr. Weng joined the group in 2005 and is currently in charge of manufacture, quality and engineering functions of Jiwa Rintech . He has 20 years of experience in management of manufacture, quality and engineering in pharmaceutical industry. He graduated from Nanjing Traditional Chinese Medicine University in 1987, with a Bachelor's Degree in Medicine. He got Certificate of Licensed Pharmacist from State Food and Drug Administration in 2000 and became an advanced engineer in 2002.

**Mr. Sean Lau**, aged 36, is the Marketing Director of Jiwa International and Tech-Medi, Mr. Lau joined the Group in 2005. He has 9 years of experience in medical & Chinese supplement industry (sales & marketing). He holds a Master Degree of Business Administration from the Queen's University of Brighton. He also holds a Bachelor Degree of Physiotherapy from the University of Manchester.

**Certified Public Accountants**
**Member of Grant Thornton International**

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**To the members of Jiwa Bio-Pharm Holdings Limited**
**積華生物醫藥控股有限公司**
**(incorporated in Bermuda with limited liability)**

We have audited the consolidated financial statements of Jiwa Bio-Pharm Holdings Limited ("the Company") set out on pages 30 to 73, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

20 July 2007

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007



| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **206,572** | 170,285 |
| Cost of sales | | **(109,262)** | (96,473) |
| Gross profit | | **97,310** | 73,812 |
| Other income | 7 | **3,712** | 3,796 |
| Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition | | **—** | 4,986 |
| Selling expenses | | **(23,663)** | (14,307) |
| Administrative expenses | | **(39,618)** | (36,645) |
| Other operating expenses | | **(2,583)** | (3,280) |
| **Operating profit** | | **35,158** | 28,362 |
| Finance costs | 8 | **(2,317)** | (3,757) |
| **Profit before income tax** | 9 | **32,841** | 24,605 |
| Income tax expense | 10 | **(5,786)** | (1,594) |
| **Profit for the year** | | **27,055** | 23,011 |
| Attributable to : | | | |
| Equity holders of the Company | 11 | **21,060** | 19,459 |
| Minority interests | | **5,995** | 3,552 |
| **Profit for the year** | | **27,055** | 23,011 |
| **Final dividend proposed after the balance sheet date** | 12 | **6,000** | 5,000 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** | | | |
| Basic | 13 | **4.21 cents** | 3.9 cents |
| Diluted | 13 | **4.20 cents** | N/A |

# CONSOLIDATED BALANCE SHEET

As at 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **159,291** | 125,357 |
| Land use rights | 17 | **26,978** | 26,686 |
| Construction in progress | 18 | **8,912** | 34,524 |
| Available for sale financial assets | 19 | **1,229** | 1,181 |
| Goodwill | 20 | **942** | 906 |
| Intangible assets | 21 | **2,356** | 403 |
| Deferred tax assets | 31 | **5,536** | 5,519 |
| | | **205,244** | 194,576 |
| **Current assets** | | | |
| Inventories | 23 | **39,041** | 28,139 |
| Accounts and bills receivable | 24 | **69,715** | 67,806 |
| Land use rights | 17 | **635** | 637 |
| Prepayments and other receivables | 25 | **22,826** | 16,778 |
| Amounts due from related companies | 26, 36(b) | **2,080** | 12 |
| Tax recoverable | | **—** | 3,488 |
| Cash and cash equivalents | 27 | **27,192** | 27,738 |
| | | **161,489** | 144,598 |
| **Current liabilities** | | | |
| Bank loans | 28 | **44,234** | 47,772 |
| Accounts and bills payable | 29 | **31,873** | 23,058 |
| Amount due to a related company | 26, 36(b) | **—** | 428 |
| Amount due to a director | | **96** | — |
| Accrued expenses and other payables | 30 | **9,264** | 10,324 |
| Tax payable | | **1,417** | — |
| | | **86,884** | 81,582 |
| **Net current assets** | | **74,605** | 63,016 |
| **Total assets less current liabilities** | | **279,849** | 257,592 |
| **Non-current liabilities** | | | |
| Bank loans | 28 | **11,911** | 16,928 |
| **Net assets** | | **267,938** | 240,664 |

# CONSOLIDATED BALANCE SHEET

As at 31 March 2007



| | Notes | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 32 | **5,000** | 5,000 |
| Reserves | | **223,105** | 200,735 |
| | | **228,105** | 205,735 |
| Minority interests | | **39,833** | 34,929 |
| **Total equity** | | **267,938** | 240,664 |

**Lau Yau Bor**
*Director*

**Lau Kin Tung**
*Director*

# BALANCE SHEET

As at 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 22 | **82,380** | 82,380 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 22 | **58,805** | 62,155 |
| Dividend receivable | | **7,000** | — |
| Cash and cash equivalents | | **62** | 319 |
| | | **65,867** | 62,474 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 22 | **434** | — |
| Accrued expenses and other payables | | **3** | 3 |
| Tax payable | | **58** | — |
| | | **495** | 3 |
| **Net current assets** | | **65,372** | 62,471 |
| **Net assets/Total assets less current liabilities** | | **147,752** | 144,851 |
| **EQUITY** | | | |
| Share capital | 32 | **5,000** | 5,000 |
| Reserves | 33 | **142,752** | 139,851 |
| **Total equity** | | **147,752** | 144,851 |

**Lau Yau Bor**
Director

**Lau Kin Tung**
Director

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007



| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | **32,841** | 24,605 |
| Adjustments for: | | |
| Interest income | **(266)** | (362) |
| Interest expense | **2,317** | 3,757 |
| Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition | **—** | (4,986) |
| Depreciation of property, plant and equipment | **8,118** | 7,999 |
| Employee share based compensation | **1,084** | — |
| Amortisation of land use rights | **635** | 567 |
| Amortisation of intangible assets | **892** | 206 |
| Gain on disposal of property, plant and equipment | **(1,713)** | (1,707) |
| Gain on disposal of land use rights | **—** | (775) |
| **Operating profit before changes in working capital** | **43,908** | 29,304 |
| (Increase)/Decrease in inventories | **(10,902)** | 1,235 |
| Increase in accounts and bills receivable | **(1,909)** | (3,123) |
| (Increase)/Decrease in prepayments and other receivables | **(6,048)** | 4,434 |
| (Increase)/Decrease in amounts due from related companies | **(2,068)** | 10,671 |
| Increase in accounts and bills payable | **8,815** | 123 |
| (Decrease)/Increase in amount due to a related company | **(428)** | 428 |
| Increase in amount due to a director | **96** | — |
| Decrease in accrued expense and other payables | **(1,060)** | (19,946) |
| **Net cash inflow from operations** | **30,404** | 23,126 |
| Tax paid | | |
| Hong Kong profits tax refunded/(paid) | **1,578** | (3,736) |
| Taxation outside Hong Kong paid | **(2,255)** | (1,566) |
| Taxation outside Hong Kong refunded | **3** | 1,481 |
| **Net cash generated from operating activities** | **29,730** | 19,305 |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Payment for purchase of property, plant and equipment | **(4,022)** | (2,943) |
| Proceeds from disposal of property, plant and equipment | **3,287** | 5,036 |
| Proceeds from disposal of land use rights | **—** | 3,387 |
| Payment for construction in progress | **(7,713)** | (9,295) |
| Payment for acquisition of a subsidiary, net of cash acquired | **—** | (5,586) |
| Payment for acquisition of intangible assets | **(2,828)** | — |
| Interest received | **266** | 362 |
| **Net cash used in investing activities** | **(11,010)** | (9,039) |
| **Cash flows from financing activities** | | |
| Proceeds from bank loans | **49,144** | 37,914 |
| Repayment of bank loans | **(59,935)** | (63,661) |
| Interest paid | **(2,317)** | (3,757) |
| Dividends paid | **(5,000)** | (7,500) |
| Dividends paid to minority shareholders | **(2,324)** | (1,867) |
| **Net cash used in financing activities** | **(20,432)** | (38,871) |
| **Net decrease in cash and cash equivalents** | **(1,712)** | (28,605) |
| Translation difference | **1,166** | (339) |
| **Cash and cash equivalents at the beginning of the year** | **27,738** | 56,682 |
| **Cash and cash equivalents at the end of the year** | **27,192** | 27,738 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007



| | Equity attributable to equity holders of the Company | | | | | | | | | | | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium* (note 33(v)) | Contributed surplus* (note 33(i)) | General reserve fund* (note 33(ii)) | Enterprise expansion fund* (note 33(ii)) | Translation reserve* | Revaluation adjustment* (note 33(iii)) | Capital reserve* (note 33(iv)) | Share option reserve* | Proposed final dividend* | Retained profits* | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2005 | 5,000 | 52,609 | 2,000 | 62 | 63 | — | (320) | 2,830 | — | 7,500 | 117,286 | 36,277 | 223,307 |
| Translation difference/ Net income recognised directly in equity | — | — | — | — | — | 2,549 | — | — | — | — | — | 1,164 | 3,713 |
| Profit for the year | — | — | — | — | — | — | — | — | — | — | 19,459 | 3,552 | 23,011 |
| Total recognised income and expenses for the year | — | — | — | — | — | 2,549 | — | — | — | — | 19,459 | 4,716 | 26,724 |
| Dividend approved in respect of the previous year | — | — | — | — | — | — | — | — | — | (7,500) | — | — | (7,500) |
| Dividend declared and payable to minority interests | — | — | — | — | — | — | — | — | — | — | — | (1,867) | (1,867) |
| Decrease in minority interest arising from deemed disposal of a subsidiary | — | — | — | — | — | — | — | — | — | — | 4,197 | (4,197) | — |
| Proposed final dividend | — | — | — | — | — | — | — | — | — | 5,000 | (5,000) | — | — |
| Transfer to reserve | — | — | — | 499 | (6) | — | — | — | — | — | (493) | — | — |
| At 31 March 2006 | 5,000 | 52,609 | 2,000 | 561 | 57 | 2,549 | (320) | 2,830 | — | 5,000 | 135,449 | 34,929 | 240,664 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

| | Equity attributable to equity holders of the Company | | | | | | | | | | | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium* (note 33(v)) HK$'000 | Contributed surplus* (note 33(i)) HK$'000 | General reserve fund* (note 33(ii)) HK$'000 | Enterprise expansion fund* (note 33(ii)) HK$'000 | Translation reserve* HK$'000 | Revaluation adjustment* (note 33(iii)) HK$'000 | Capital reserve* (note 33(iv)) HK$'000 | Share option reserve* HK$'000 | Proposed final dividend* HK$'000 | Retained profits* HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2006 | 5,000 | 52,609 | 2,000 | 561 | 57 | 2,549 | (320) | 2,830 | — | 5,000 | 135,449 | 34,929 | 240,664 |
| Translation difference/ Net income recognised directly in equity | — | — | — | — | — | 5,226 | — | — | — | — | — | 1,233 | 6,459 |
| Profit for the year | — | — | — | — | — | — | — | — | — | — | 21,060 | 5,995 | 27,055 |
| Total recognised income and expenses for the year | — | — | — | — | — | 5,226 | — | — | — | — | 21,060 | 7,228 | 33,514 |
| Employee share based compensation (note 14) | — | — | — | — | — | — | — | — | 1,084 | — | — | — | 1,084 |
| Dividend approved in respect of the previous year | — | — | — | — | — | — | — | — | — | (5,000) | — | — | (5,000) |
| Dividend declared and payable to minority interest | — | — | — | — | — | — | — | — | — | — | — | (2,324) | (2,324) |
| Proposed final dividend | — | — | — | — | — | — | — | — | — | 6,000 | (6,000) | — | — |
| Transfer to reserve | — | — | — | (14) | — | — | — | — | — | — | 14 | — | — |
| At 31 March 2007 | 5,000 | 52,609 | 2,000 | 547 | 57 | 7,775 | (320) | 2,830 | 1,084 | 6,000 | 150,523 | 39,833 | 267,938 |

* The aggregate balances of these reserves of HK$223,105,000 (2006: HK$200,735,000) represent the total reserves of the Group as stated on the consolidated balance sheet.

## 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 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 on pages 30 to 73 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also 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 (the "Listing Rules").

The financial statements for the year ended 31 March 2007 were approved by the board of directors on 20 July 2007.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

### (a) New or amended HKFRSs effective on 1 April 2006

From 1 April 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in any significant changes in the Group's and the Company's accounting policies but gave rise to additional disclosures.

### (b) New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

| | |
|---|---|
| Amendment to HKAS 1 | "Presentation of Financial Statements" — Capital Disclosures[1] |
| HKFRS 7 | "Financial Instruments: Disclosures"[1] |
| HKFRS 8 | "Operating Segments"[7] |
| HK(IFRIC) Interpretation 8 | "Scope of HKFRS 2"[2] |
| HK(IFRIC) Interpretation 9 | "Reassessment of Embedded Derivatives"[3] |
| HK(IFRIC) Interpretation 10 | "Interim Financial Reporting and Impairment"[4] |
| HK(IFRIC) Interpretation 11 | "Group and Treasury Share Transactions"[5] |
| HK(IFRIC) Interpretation 12 | "Service Concession Arrangements"[6] |

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 May 2006
3 Effective for annual periods beginning on or after 1 June 2006
4 Effective for annual periods beginning on or after 1 November 2006
5 Effective for annual periods beginning on or after 1 March 2007
6 Effective for annual periods beginning on or after 1 January 2008
7 Effective for annual periods beginning on or after 1 January 2009

## 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. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial 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 and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### (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 (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combination (other than for combining entities under common control) are accounted for by applying 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 fair value, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. 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.

Minority interests represent the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Subsidiaries (Continued)

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

### (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 individual 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. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities 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 individual financial statements of foreign operations, 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 provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Revenue recognition

Revenue includes the amounts received/receivable for the sales of goods and services, net of rebates and discount and after eliminating sales with the Group. Revenue is recognised as follow:

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 rate 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.

### (f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination or investment in a jointly controlled entity is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or a jointly controlled entity is recognised immediately in income statement.

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

### (g) Intangible assets (other than goodwill) and research and development activities

*Intangible assets (other than goodwill)*

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 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. Such intangible assets are tested for impairment as described below in note 3(i). Amortisation commences when the intangible assets are available for use.

*Research and development costs*

All research and development costs are expensed as incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) 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 over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Buildings | 20-50 years |
| Motor vehicles | 3 year |
| 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 retirement or 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.

### (i) Impairment of assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment and interest in subsidiaries are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined from the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). 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 the goodwill is monitored for internal management purpose.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Impairment of assets (Continued)

Impairment loss 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, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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 favourable 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.

### (j) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

Land use rights are up-front payments to acquire the land use rights/leasehold land. 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.

### (k) Financial assets

The Group classified its financial assets into accounts, bills and other receivables, amounts due from related companies and, available-for-sale financial assets. 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 when, and only when, the Group becomes a party to the contractual provisions of the instrument. 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. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial assets (Continued)

*(i) 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. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in income statement. Interest calculated using the effective interest rate method is recognised in income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

*(ii) Accounts, bills and other receivables and amounts due from related companies*

Accounts, bills and other receivables and amounts due from related companies are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

**Impairment of financial assets**

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

*(i) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in income statement.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(k) Financial assets** (Continued)

**Impairment of financial assets** (Continued)

*(ii) Financial assets carried at costs*

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent period.

**(l) 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.

**(m) Inventories**

Inventories are carried 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 the estimated cost of completion and applicable selling expenses.

**(n) 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.

**(o) Accounting for income taxes**

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Accounting for income taxes (Continued)

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.

### (p) 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.

### (q) 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 employers of the Group's subsidiaries 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 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 such as sick leave and maternity leave are not recognised until the time of leave.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 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).

All share-based compensation is recognised as an expense in full at the grant date when the share option grants vested immediately, 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 vested.

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 profits.

### (s) Financial liabilities

The Group's financial liabilities include bank loans, accounts, bills and other payables, and amount due to a related company.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

*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 rate 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(s) Financial liabilities** (Continued)

*Accounts, bills and other payables*

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

**(t) Provisions and contingent liabilities and contingent assets**

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 amortisaton, if appropriate.

**(u) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed.

**(v) Related parties**

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

(i) directly, or indirectly through one or more intermediaries, the party:

— controls, is controlled by, or is under common control with, the Group;
— has an interest in the Group that gives it significant influence over the Group;
— has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

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

(v) the party is a close member of the family of any individual referred to in (i) to (iv);

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(v) Related parties** (Continued)

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) to (v); or

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

**(w) Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments 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 corporate assets and available-for-sale financial assets. 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 is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

**(x) Financial guarantee issued**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

## 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:

**Estimated impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. 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 condition exists, 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 AND TURNOVER

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

## 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.

| | Pharmaceutical products | | Trading pharmaceutical products | | Health care products | | Pharmaceutical bulk materials | | Inter-segment elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Revenue from external customers | **143,014** | 119,386 | **56,422** | 42,869 | **7,136** | 8,030 | **—** | — | **—** | — | **206,572** | 170,285 |
| Inter-segment revenue | **7,139** | 4,814 | **—** | — | **—** | — | **—** | — | **(7,139)** | (4,814) | **—** | — |
| | **150,153** | 124,200 | **56,422** | 42,869 | **7,136** | 8,030 | **—** | — | **(7,139)** | (4,814) | **206,572** | 170,285 |
| Segment results | **41,387** | 23,632 | **7,201** | 7,784 | **(868)** | 336 | **(5,048)** | (2,096) | **(7,139)** | (4,814) | **35,533** | 24,842 |
| Unallocated operating income and expenses | | | | | | | | | | | **(375)** | (1,466) |
| Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost of acquisition | | | | | | | | | | | **—** | 4,986 |
| Operating profit | | | | | | | | | | | **35,158** | 28,362 |
| Finance costs | | | | | | | | | | | **(2,317)** | (3,757) |
| Income tax expense | | | | | | | | | | | **(5,786)** | (1,594) |
| Profit for the year | | | | | | | | | | | **27,055** | 23,011 |
| Depreciation | **6,969** | 6,975 | **640** | 734 | **137** | 105 | **372** | 185 | **—** | — | **8,118** | 7,999 |
| Amortisation of intangible assets | **892** | 206 | **—** | — | **—** | — | **—** | — | **—** | — | **892** | 206 |
| Annual charges of land use rights | **369** | 369 | **35** | 36 | **—** | — | **231** | 162 | **—** | — | **635** | 567 |
| Segment assets | **234,903** | 213,092 | **77,180** | 74,942 | **1,797** | 2,597 | **50,732** | 45,687 | **—** | — | **364,612** | 336,318 |
| Unallocated assets | | | | | | | | | | | **2,121** | 2,856 |
| Total assets | | | | | | | | | | | **366,733** | 339,174 |
| Segment liabilities | **27,138** | 21,684 | **20,216** | 13,966 | **918** | 239 | **—** | — | **—** | — | **48,272** | 35,889 |
| Unallocated liabilities | | | | | | | | | | | **50,523** | 62,621 |
| Total liabilities | | | | | | | | | | | **98,795** | 98,510 |
| Capital expenditure incurred during the year | **7,757** | 9,315 | **289** | 540 | **—** | 212 | **6,517** | 35,645 | **—** | — | **14,563** | 45,712 |

## 6. SEGMENT INFORMATION (Continued)

**Secondary reporting format — Geographical segments**

The Group's revenue are predominantly derived from the PRC.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

| | Segment assets | | Capital expenditure | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Hong Kong | **77,209** | 78,325 | **287** | 738 |
| Macau | **4,935** | 3,574 | **2** | 14 |
| PRC (excluding Hong Kong and Macau) | **284,589** | 257,275 | **14,274** | 44,960 |
| | **366,733** | 339,174 | **14,563** | 45,712 |

## 7. OTHER INCOME

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Interest income | **266** | 362 |
| Gain on disposal of property, plant and equipment | **1,713** | 1,707 |
| Gain on disposal of land use rights | **—** | 775 |
| Net income from insurance claims | **179** | 16 |
| Net exchange gain | **1,130** | 843 |
| Others | **424** | 93 |
| | **3,712** | 3,796 |

## 8. FINANCE COSTS

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **2,317** | 3,757 |

## 9. PROFIT BEFORE INCOME TAX

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Profit before income tax is arrived at after charging: | | |
| Costs of inventories recognised as expense (i) | **108,028** | 94,850 |
| Auditors' remuneration | **500** | 350 |
| Depreciation | **8,118** | 7,999 |
| Amortisation of intangible assets | **892** | 206 |
| Annual charges on land use rights | **635** | 567 |
| Operating lease charges in respect of premises | **2,629** | 2,853 |
| Research and development costs (ii) | **1,164** | 2,010 |
| Write off of property, plant and equipment | **—** | 342 |

Notes :

(i) Cost of inventories includes HK$8,947,000 (2006: HK$7,778,000) 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$58,000 (2006: HK$165,000) which are also included in the total amount of staff costs in note 14.

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 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.

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Current tax | | |
| — Hong Kong | | |
| Tax for the year | **1,234** | 972 |
| Over provision in respect of prior years | **(26)** | (117) |
| | **1,208** | 855 |
| — Outside Hong Kong | | |
| Provision for PRC income tax | **2,632** | 2,147 |
| Under provision in respect of prior years | **1,742** | — |
| Tax refund | **(3)** | (1,481) |
| | **4,371** | 666 |
| Deferred tax | | |
| Current year (Note 31) | **207** | 73 |
| Total income tax expense | **5,786** | 1,594 |

Reconciliation between tax expense and accounting profit at applicable tax rates:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Profit before income tax | **32,841** | 24,605 |
| Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned | **5,510** | 2,794 |
| Tax effect of non-deductible expenses | **2,097** | 858 |
| Tax effect of non-taxable revenue | **(2,360)** | (1,326) |
| Tax losses not recognised as deferred tax assets | **93** | 628 |
| Tax effect of temporary differences not recognised | **98** | (6) |
| Tax effect of prior year's unrecognised tax losses utilised in current year | **(846)** | — |
| Tax refund | **(3)** | (1,481) |
| Others | **(519)** | 244 |
| Under/(Over) provision in prior years | **1,716** | (117) |
| Actual tax expense | **5,786** | 1,594 |

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$21,060,000 (2006: HK$19,459,000), a profit of HK$6,817,000 (2006: a loss of HK$251,000) has been dealt with in the financial statements of the Company.

## 12. DIVIDENDS

### (a) Dividends attributable to the year

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Final dividend proposed after the balance sheet date of HK$0.012 per share (2006: HK$0.01 per share) | **6,000** | 5,000 |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of the retained earnings for the year ended 31 March 2007.

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

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Final dividend in respect of the previous financial year of HK$0.01 per share (2006: HK$0.015 per share) | **5,000** | 7,500 |

## 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$21,060,000 (2006: HK$19,459,000) and on 500,000,000 (2006: 500,000,000) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit attributable to equity holders of the Company for the year of HK$21,060,000 and the weighted average of 500,643,000 ordinary shares in issue during the year, adjusted for the effects of all dilutive potential shares.

No diluted earnings per share for 2006 was presented as there were no potential dilutive ordinary shares.

## 14. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Salaries and wages | **22,543** | 16,323 |
| Share options granted to directors (Note 15(a) and 34) | **1,084** | — |
| Rentals for staff and directors | **1,526** | 1,438 |
| Contribution to defined contribution plans | **1,225** | 1,273 |
| | **26,378** | 19,034 |

## 15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### (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** |
|---|---|---|---|---|---|
| **2007** | | | | | |
| **Executive directors** | | | | | |
| Mr. Lau Yau Bor | **—** | **2,072** | **—** | **—** | **2,072** |
| Mr. Lau Kin Tung | **—** | **1,544** | **—** | **12** | **1,556** |
| Madam Chan Hing Ming | **—** | **598** | **—** | **—** | **598** |
| **Independent non-executive directors** | | | | | |
| Mr. Choy Ping Sheung | **80** | **—** | **—** | **—** | **80** |
| Mr. Fung Tze Wa | **100** | **—** | **—** | **—** | **100** |
| Mr. Seet Lip Chai | **100** | **—** | **—** | **—** | **100** |
| | **280** | **4,214** | **—** | **12** | **4,506** |
| 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. Choy Ping Sheung | 80 | — | — | — | 80 |
| Mr. Fung Tze Wa | 100 | — | — | — | 100 |
| Mr. Seet Lip Chai (i) | 58 | — | — | — | 58 |
| Mr. Soo Ping Shu, Samuel (ii) | 33 | — | — | — | 33 |
| | 271 | 3,235 | 114 | 19 | 3,639 |

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

### (a) Directors' emoluments (Continued)

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

(ii) Mr. Soo Ping Shu, Samuel was resigned on 1 September 2005.

No directors waived or agreed to waive any emoluments in respect of the years ended 31 March 2006 and 31 March 2007.

During the year, 15,000,000 share options with a fair value of HK$1,084,000 were granted to the directors of the Company to subscribe for ordinary shares of the Company (2006: Nil).

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Basic salaries, housing, other allowances and benefits in kind | **837** | 1,009 |
| Discretionary bonuses | **168** | 209 |
| Retirement scheme contribution | **17** | 24 |
| | **1,022** | 1,242 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2007** | 2006 |
| Nil — HK$1,000,000 | **2** | 2 |

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$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 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 |

## 16. PROPERTY, PLANT AND EQUIPMENT — GROUP (Continued)

| | Buildings HK$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Year ended 31 March 2007 | | | | | |
| Opening net book amount | 82,522 | 784 | 36,559 | 5,492 | 125,357 |
| Additions | — | 280 | 3,334 | 408 | 4,022 |
| Disposals | (1,249) | — | (307) | (18) | (1,574) |
| Depreciation | (3,956) | (309) | (1,984) | (1,869) | (8,118) |
| Transfer from construction in progress | 18,254 | — | 16,171 | 1,099 | 35,524 |
| Transfer to construction in progress | — | — | (804) | — | (804) |
| Translation differences | 3,458 | 36 | 1,170 | 220 | 4,884 |
| Closing net book amount | 99,029 | 791 | 54,139 | 5,332 | 159,291 |
| At 31 March 2007 | | | | | |
| Cost | 110,082 | 2,843 | 69,264 | 11,246 | 193,435 |
| Accumulated depreciation | (11,053) | (2,052) | (15,125) | (5,914) | (34,144) |
| Net book amount | 99,029 | 791 | 54,139 | 5,332 | 159,291 |

Buildings with carrying amount of HK$73,114,000 (2006: HK$51,169,000) 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:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Hong Kong held on: | | |
| — Leases of over 50 years | **4,392** | 4,426 |
| Outside Hong Kong, held on: | | |
| — Leases of between 10 to 50 years | **23,221** | 22,897 |
| | **27,613** | 27,323 |
| *Less:* Current portion included in current assets | **(635)** | (637) |
| | **26,978** | 26,686 |

Land use rights with carrying amount of HK$7,066,000 (2006: HK$6,916,000) was pledged to secure bank loans (Note 28).

## 17. LAND USE RIGHTS — GROUP (Continued)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Opening net carrying amount | **27,323** | 19,434 |
| Acquisition of a subsidiary | **—** | 10,420 |
| Disposal | **—** | (2,612) |
| Annual charges of prepaid operating lease payment | **(635)** | (567) |
| Translation differences | **925** | 648 |
| Closing net carrying amount | **27,613** | 27,323 |

## 18. CONSTRUCTION IN PROGRESS — GROUP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| At 1 April | **34,524** | 24,742 |
| Additions | **7,713** | 9,295 |
| Transferred from property, plant and equipment | **804** | 16,851 |
| Transferred to property, plant and equipment | **(35,524)** | (17,085) |
| Translation differences | **1,395** | 721 |
| At 31 March | **8,912** | 34,524 |

Construction in progress at 31 March 2007 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming.

## 19. AVAILABLE FOR SALE FINANCIAL ASSETS — GROUP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Unlisted equity securities in PRC, at cost | **1,229** | 1,181 |

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **At 1 April** | | |
| Gross carrying amount | **906** | 918 |
| Accumulated impairment | **—** | (38) |
| **Net carrying amount, at 1 April** | **906** | 880 |
| **Net carrying amount at 1 April 2006** | **906** | 880 |
| Net exchange difference | **36** | 26 |
| Net carrying amount at 31 March 2007 | **942** | 906 |
| **At 31 March** | | |
| Gross carrying amount | **942** | 906 |
| Accumulated impairment | **—** | — |
| **Net carrying amount** | **942** | 906 |

Subsequent to the annual impairment test for 2007, the carrying amount of goodwill is allocated to the cash generating unit of pharmaceutical products. The recoverable amounts for the cash generating unit above was determined based on value-in-use calculations, covering a detailed five-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 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 |
| Year ended 31 March 2007 | |
| Opening net book amount, at 1 April 2006 | 403 |
| Additions | 2,828 |
| Exchange difference | 17 |
| Amortisation charge | (892) |
| **Closing net book amount** | **2,356** |
| At 31 March 2007 | |
| Cost | 3,458 |
| Accumulated amortisation | (1,102) |
| **Net book amount** | **2,356** |

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

## 22. INVESTMENT IN SUBSIDIARIES — COMPANY

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Unlisted investments, at cost | **82,380** | 82,380 |

## 22. INVESTMENT IN SUBSIDIARIES — COMPANY (Continued)

Particulars of the Company's subsidiaries as at 31 March 2007 are as follows:

| Name of company | Place of incorporation and kind of legal entity | Particulars of issued and paid up capital | Percentage of issued capital held by the Company | Principal activities and place of operation |
|---|---|---|---|---|
| Jiwa Development Co. Ltd. ("Jiwa Development") | British Virgin Islands ("BVI"), limited liability company | 100,000 ordinary shares of US$0.5 each | 100%* | Investment holding, Hong Kong |
| Jiwa International Limited | Hong Kong, limited liability company | 1,000 ordinary shares of HK$1,000 each | 100% | Trading of pharmaceutical products, Hong Kong |
| Jiwa Pharmaceuticals Limited | Hong Kong, limited liability company | 1,000 ordinary shares of HK$1,000 each | 100% | Investment holding, Hong Kong |
| Tech-Medi Development Limited | Hong Kong, limited liability company | 200 ordinary shares of HK$1,000 each | 100% | Trading of health care products, Hong Kong |
| Kunming Jida Pharmaceutical Company Limited ("KJP") | PRC, limited liability company | RMB113,334,000 | 70% | Manufacturing and trading of pharmaceutical products, PRC |
| Jiwa Rintech Holdings Limited ("Jiwa Rintech") | BVI, limited liability company | 10 ordinary shares of US$1 each | 100% | Investment holding, Hong Kong |
| Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP") | PRC, limited liability company | RMB38,000,000 | 100% | Manufacturing and trading of pharmaceutical bulk materials, PRC |
| Sino-Tech International (Macao Commercial Offshore) Limited | Macau, limited liability company | MOP100,000 | 100% | Trading of health care products, Macau |

* Issued capital held directly by the Company

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

## 23. INVENTORIES — GROUP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Raw materials | **17,818** | 13,526 |
| Work in progress | **6,219** | 5,739 |
| Finished goods | **15,004** | 8,874 |
| | **39,041** | 28,139 |

## 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 :

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Accounts receivables | | |
| Overdue within 3 months | **37,977** | 44,546 |
| Overdue over 3 months but less than 6 months | **10,667** | 5,231 |
| Overdue over 6 months | **20,768** | 16,236 |
| | **69,412** | 66,013 |
| Bills receivable | **303** | 1,793 |
| | **69,715** | 67,806 |

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

Included in accounts and bills receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate :

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| United States Dollars ("US$") | **6,328** | 6,062 |

## 25. PREPAYMENTS AND OTHER RECEIVABLES — GROUP

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Deposits | **638** | 457 |
| Other receivables | **6,718** | 6,191 |
| Prepayments | **15,470** | 10,130 |
| | **22,826** | 16,778 |

## 26. AMOUNTS DUE FROM/(TO) RELATED COMPANIES — GROUP

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

## 27. CASH AND CASH EQUIVALENTS — GROUP

Included in cash and cash equivalents of the Group is HK$15,444,000 (2006: HK$15,482,000) of bank balances denominated in Renminbi ("RMB") placed with banks in PRC. RMB is not a freely convertible currency.

## 28. BANK LOANS — GROUP

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Bank loans | **11,911** | 16,928 |
| **Current** | | |
| Bank loans | **44,234** | 47,772 |
| | **56,145** | 64,700 |

Total bank loans included secured liabilities of HK$44,444,000 (2006: HK$55,339,000). Bank loans are secured by the buildings and land use rights of the Group with net book value of HK$ 73,114,000 (2006: HK$51,169,000) and HK$7,066,000 (2006: HK$6,916,000) respectively.

At 31 March 2007, the bank loans were repayable as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Within 1 year or on demand | **44,234** | 47,772 |
| After 1 year but within 2 years | **11,911** | 7,593 |
| After 2 years but within 5 years | **—** | 9,335 |
| | **56,145** | 64,700 |

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

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

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| US$ | **11,700** | 9,360 |
| RMB | **44,445** | 55,340 |
| | **56,145** | 64,700 |

## 28. BANK LOANS — GROUP (Continued)

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

| | Interest rates | |
|---|---|---|
| | **2007** | 2006 |
| Bank loans in US$ — Floating rate to be matured from 2007 to 2009 | **US$ Prime rate (2007: 8.25%) less 0.75%** | US$ Prime rate (2006: 7.75%) less 0.75% |
| Bank loans in RMB — Fixed rates, to be matured from 2007 to 2008 | **5.10% to 5.85%** | 4.94% to 5.76% |

## 29. ACCOUNTS AND BILLS PAYABLE — GROUP

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

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Accounts payable | | |
| — Due within 1 month or on demand | **8,879** | 506 |
| — Due after 1 month but within 3 months | **13,836** | 14,648 |
| — Due after 3 months but within 6 months | **1,278** | 186 |
| — Due after 6 months | **—** | 123 |
| | **23,993** | 15,463 |
| Bills payable | **7,880** | 7,595 |
| | **31,873** | 23,058 |

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

Included in accounts and bills payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | **2007 '000** | 2006 '000 |
|---|---|---|
| US$ | **US$772** | US$366 |
| EURO ("EUR") | **EUR920** | EUR775 |

## 30. ACCRUED EXPENSES AND OTHER PAYABLES — GROUP

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Other payables | **7,735** | 9,342 |
| Accruals | **1,529** | 982 |
| | **9,264** | 10,324 |

## 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 2005 | 2,283 | 3,153 | 5,436 |
| Charged to consolidated income statement | (25) | (48) | (73) |
| Exchange difference | 66 | 90 | 156 |
| At 31 March 2006 and 1 April 2006 | 2,324 | 3,195 | 5,519 |
| Charged to consolidated income statement | (111) | (96) | (207) |
| Exchange difference | 95 | 129 | 224 |
| **At 31 March 2007** | **2,308** | **3,228** | **5,536** |

The Group has not recognised deferred tax assets in respect of unused tax losses of HK$534,000 (2006: HK$4,520,000) because of the unpredictability of future profit streams. These tax losses do not have any expiry date.

## 32. SHARE CAPITAL

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount HK$'000** | Number of shares | Amount HK$'000 |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.01 each | **1,000,000,000** | **10,000** | 1,000,000,000 | 10,000 |
| **Issued and fully paid:** | | | | |
| At 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 pages 36 and 37.

*(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, a subsidiary of the Group. 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 revaluation 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 as 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.

*(v) Share premium*

The Share premium represents the premium arising from the issue of shares, net of placing expenses.

### COMPANY

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Retained Profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 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 and 1 April 2006 | 52,609 | 82,180 | — | 5,062 | 139,851 |
| Dividend approved in respect of the previous year | — | — | — | (5,000) | (5,000) |
| Employee share based compensation (Note 34) | — | — | 1,084 | — | 1,084 |
| Profit for the year | — | — | — | 6,817 | 6,817 |
| **At 31 March 2007** | **52,609** | **82,180** | **1,084** | **6,879** | **142,752** |

## 33. RESERVES (Continued)

**COMPANY**

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Retained profits represent: | | |
| Final proposed dividend (Note 12) | **6,000** | 5,000 |
| Others | **879** | 62 |
| | **6,879** | 5,062 |

## 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.

On 12 April 2006, the Company granted 15,000,000 share options to the directors of the Company. Share options and weighted average exercise price are as follows for the reporting periods presented:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price HK$** | Number | Weighted average exercise price HK$ |
| Outstanding at 1 April | **17,000,000** | **0.335** | 17,000,000 | 0.335 |
| Granted | **15,000,000** | **0.28** | — | — |
| Cancelled | **(7,000,000)** | **0.333** | — | — |
| Outstanding at 31 March | **25,000,000** | **0.302** | 17,000,000 | 0.335 |

The fair value of the options granted during the year had a fair value of HK$1,084,000 and were determined using the Binomial model. Significant inputs into the calculation were as follows:

| | |
|---|---|
| Share price | HK$0.28 |
| Exercise price | HK$0.28 |
| Expected volatility | 34.3% |
| Expected option life (year) | 5 |
| Weighted average annual risk free interest rate | 4.468% |
| Expected dividend yield | 4.1% |
| Suboptimal exercise factor | 2 |

## 34. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

The expected volatility was determined with reference to the historical volatility which is calculated by past two years daily average closing price of the Company. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. The risk-free interest rate was determined with reference to the yield of Exchange Fund Notes as at the grant date.

Terms of unexpired and unexercised share options at the balance sheet date are as follows:

| Date granted | Market price at the date of grant | Exercise period | Weighted average exercise price per share | 2007 Number | 2006 Number |
|---|---|---|---|---|---|
| 31 March 2004 | HK$0.375 | 31 March 2004 to 30 March 2009 | HK$0.377 | — | 2,000,000 |
| 4 May 2004 | HK$0.295 | 4 May 2004 to 3 May 2009 | HK$0.310 | — | 4,000,000 |
| 29 December 2004 | HK$0.330 | 29 December 2004 to 28 December 2009 | HK$0.336 | **10,000,000** | 11,000,000 |
| 12 April 2006 | HK$0.280 | 12 April 2006 to 11 April 2011 | HK$0.280 | **15,000,000** | — |
| At 31 March 2007 | | | | **25,000,000** | 17,000,000 |

## 35. COMMITMENTS

(a) At 31 March 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Within 1 year | **2,457** | 794 |
| After 1 year but within 5 years | **599** | 74 |
| | **3,056** | 868 |

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 2007 (2006: Nil).

## 35. COMMITMENTS (Continued)

(b) Capital commitments outstanding at 31 March 2007 not provided for in the financial statements were as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Contracted for | | |
| — acquisition of technical know-how | **2,607** | 990 |
| — acquisition of property, plant and equipment | **2,342** | — |
| | **4,949** | 990 |
| Authorised but not contracted for | | |
| — acquisition of property, plant and equipment | **5,140** | 6,885 |
| | **10,089** | 7,875 |

The Company had no capital commitment as at 31 March 2007 (2006: Nil).

## 36. RELATED PARTY TRANSACTIONS — GROUP

The Group had the following transactions with related parties:

### (a) Recurring

| | Note | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Sales of goods: | | | |
| — Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group") | (i) | **8,918** | 8,801 |
| Rentals paid | | | |
| — Mr Lau Yau Bor | (ii) | **336** | 57 |
| — Jiwa Investment Limited | (iii) | **1,881** | 2,112 |

Notes:

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

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

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

## 36. RELATED PARTY TRANSACTIONS — GROUP (Continued)

### (b) Amounts due from/(to) related companies at 31 March 2007

*(i) Amounts due from related companies*

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Yunnan Jiwa Pharm Logistics Company Limited | **49** | 12 |
| Yunnan Pharmaceutical and Industrial Corporation Limited | **2,031** | — |
| | **2,080** | 12 |

*(ii) Amount due to a related company*

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Yunnan Pharmaceutical and Industrial Corporation Limited | **—** | 428 |

## 37. GUARANTEE — COMPANY

As at the balance sheet date, the Company had issued the following significant guarantees:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Guarantees in respect of: | | |
| Credit facilities granted by banks to certain subsidiaries | **18,352** | 13,553 |

## 38. POST BALANCE SHEET EVENTS

### (i) Proposed increase of authorised capital

On 11 June 2007, the Company announced that it proposed to increase its authorised share capital, from HK$10,000,000 HK$100,000,000 by the creation of an additional 9,000,000,000 shares of HK$0.01 each. After the increase, the authorised share capital of the Company would be HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each. A special general meeting was held on 3 July 2007 and the proposal was approved during that meeting.

### (ii) Acquisition of Shanxi Fanshi County Longchang Industrial Co., Ltd. ("Longchang Company")

On 17 June 2007, Jiwa Development and a partner, had entered into sale and purchase agreement and co-operation agreement with two independent third parties (the "Vendors") to purchase from the Vendors 70% and 30% equity capital in Longchang Company, for a consideration of RMB24,500,000 and RMB10,500,000 respectively.

Longchang Company is a limited liability company incorporated in the PRC, which possesses the rights to the exploitation of iron ores in an area comprising approximately 3 square kilometres in Fanshi County of Shanxi Province, the PRC. The details of the acquisition were set out in the Company's circular issued on 11 July 2007.

## 38. POST BALANCE SHEET EVENTS (Continued)

### (iii) Granting of share options

On 12 April 2007, the Company granted 10,000,000 share options to the directors of the Company. These share options, vested on the date of grant, are exercisable during the period from their respective date of grant to 11 April 2012 at the exercise price of HK$0.32 per share. The closing market price of the Company's share on the date of grant of these share options was HK$0.31. The closing market price of the Company's share on the trading day immediately prior to the date of grant of these share options was HK$0.31.

## 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 bear floating interest rates. The Group did not enter into interest rates swap contracts to management the Group's exposure to movement 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 accounts and bills 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, US$ 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.

# FIVE YEARS FINANCIAL SUMMARY



| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2003<br>HK$'000 | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
| **Revenue** | 188,762 | 202,950 | 179,226 | 170,285 | **206,572** |
| Operating profit | 45,332 | 58,912 | 43,532 | 28,362 | **35,158** |
| Finance costs | (1,600) | (1,273) | (3,652) | (3,757) | **(2,317)** |
| **Profit before income tax** | 43,732 | 57,639 | 39,880 | 24,605 | **32,841** |
| Income tax expense | (3,930) | (5,054) | (5,673) | (1,594) | **(5,786)** |
| Profit for the year | 39,802 | 52,585 | 34,207 | 23,011 | **27,055** |
| Profit attributable to equity holders of the Company | 30,870 | 41,076 | 29,568 | 19,459 | **21,060** |
| Minority interests | 8,932 | 11,509 | 4,639 | 3,552 | **5,995** |
| Profit for the year | 39,802 | 52,585 | 34,207 | 23,011 | **27,055** |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** | | | | | |
| Basic (cents) | 8.80 | 9.80 | 5.90 | 3.90 | **4.21** |
| Diluted (cents) | N/A | 9.80 | 5.90 | N/A | **4.20** |
| Total assets | 182,018 | 327,548 | 343,438 | 339,174 | **366,733** |
| Total liabilities | (76,589) | (126,144) | (120,131) | (98,510) | **(98,795)** |
| Net assets | 105,429 | 201,404 | 223,307 | 240,664 | **267,938** |
| Share capital | 2,200 | 5,000 | 5,000 | 5,000 | **5,000** |
| Reserves | 79,597 | 159,282 | 182,030 | 200,735 | **223,105** |
| Minority interests | 23,632 | 37,122 | 36,277 | 34,929 | **39,833** |
| | 105,429 | 201,404 | 223,307 | 240,664 | **267,938** |