



# Jiwa Bio-Pharm Holdings Limited

## 積華生物醫藥控股有限公司\*

(Incorporated in Bermuda with limited liability)  
(Stock Code: 2327)



**INTERIM REPORT 2007**

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## CORPORATE INFORMATION

### Board of Directors

#### **Executive Directors**

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

#### **Independent Non-Executive Directors**

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

#### **Company Secretary**

Mr. Chu Kim Ho (FCCA, FCPA)

#### **Audit Committee**

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

#### **Remuneration Committee**

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

#### **Nomination Committee**

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

#### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

#### **Head Office and Principal Place of Business in Hong Kong**

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

#### **Auditors**

Grant Thornton  
*Certified Public Accountants*

#### **Principal Bankers**

*In Hong Kong:*  
Nanyang Commercial Bank Ltd.

*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](http://www.jiwa.com.hk)

#### **Stock Code**

2327

## MANAGEMENT DISCUSSION AND ANALYSIS

The directors (the "Directors") of Jiwa Bio-Pharm Holdings Limited (the "Company") are pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2007 (the "Period").

### FINANCIAL HIGHLIGHTS

	Six months ended		Increase
	30 September		
	2007	2006	
	\$'000	\$'000	
Turnover	<b>132,136</b>	99,103	<b>33%</b>
Gross Profit	<b>62,066</b>	47,037	<b>32%</b>
Profit from operations	<b>26,342</b>	16,974	<b>55%</b>
Profit attributable to equity holders	<b>15,015</b>	11,117	<b>35%</b>

### RESULTS AND DIVIDENDS

Performances of the Group's core business were satisfactory during the Period with turnover amounted to HK\$132,136,000, representing an increase of 33% over the corresponding Period last year; profit from operations rose substantially by 55% to HK\$26,342,000; and profit attributable to equity holders surged from HK\$11,117,000 to HK\$15,015,000 which represented an increase of 35%.

The Board does not recommend a payment of an interim dividend for the six months ended 30 September 2007 (2006: Nil).

## **BUSINESS REVIEW**

In 2007, the Group was able to maintain an overall gross profit margin at a level of 47%, despite that the Group, together with the whole industry, was hit by a number of factors including an increase in cost of chemical bulk materials and appreciation of foreign currency. This was mainly attributable to the management's efforts in optimizing the product structure, developing specialist drugs in the move to become an "innovative enterprise".

The group sold 32 types of drugs in total during the period under review, in which the anti-infectious, musculo-skeletal and gastro-intestinal drugs accounted for 34.4%, 31.9% and 27.8% respectively. Among these, pharmaceutical products self-developed and sold by the Group ("Pharmaceutical Products") accounted for 71.9% of the total sales, while European pharmaceutical products distributed by the Group ("Trading Pharmaceutical Products") and Chinese healthcare products produced and sold by the Group ("Healthcare Products") accounted for 24.7% and 3.4% of the total sales respectively. Certification and product development processes in respect of the pharmaceutical bulk materials ("Pharmaceutical Bulk Materials") plant in Jiangsu Province, the PRC went smooth and the plant is expected to commence production gradually in the first half of 2008.

### **Pharmaceutical products**

During the Period, the sales of Pharmaceutical Products amounted to HK\$95,026,000, representing an increase of 42.7% as compared to corresponding period last year, whereas the segmental results recorded an increase of 68.5% to HK\$23,222,000. Although the gross profit of anti-infectious drugs decreased as a result of the rising price of antibiotics bulk materials, the emerging effectiveness of a reformed marketing and sales system, the surging market penetration rate and the growing demand for new products in the market were more than sufficient to offset the effect of rising price of bulk materials and led to prominent results for this segment.

## **Trading pharmaceutical products**

During the Period, turnover of Trading Pharmaceutical Products was HK\$32,655,000, representing an increase of 15% as compared to corresponding period last year while the segmental results decreased for 2.3% as compared to last year to HK\$6,844,000. Decline in the gross profit of the product was mainly attributable to the rising Euros which led to an increase of the cost of Trading Pharmaceutical Products.

During the Period under review, the world class patented product Artrodar, for which the Group is the sole agent in China, was listed on "A Guide to treat orthopedics" (the "Guide") in light of its specific organic function and outstanding treatment effect. The Guide is prepared by a group of top-notch State-class orthopedics experts, in which Artrodar is considered not only as symptom-relieving, but is also able to treat the disease progress with specific treatment function. The inclusion of Artrodar in the Guide forms a strong academic support for our marketing efforts and lays a solid ground for a full-scale launch into the PRC market.

Trading Pharmaceutical Products remained affected by the fluctuations in Euro. Nevertheless, the management is of the view that the new drugs have a brilliant future and will invigorate such segmental results to grow fast.

## **Healthcare products**

During the period, the sales of Healthcare Products amounted to HK\$4,436,000 representing an increase of 7% as compared to corresponding period last year. In 2007, the Group conducted a series of brand-establishing work for our top healthcare product Royal 2000 HHT (Qi Xue Tong) through different promotion channels. The outcome was agreeable and a survey revealed that recognition for this product had increased with higher customer valuation. During the period, the loss of segmental results for Healthcare Products was HK\$1,370,000. The expanded loss was mainly due to an increase of investment in advertising expense. The management expects such segmental results will improve following the gradual increase of brand's penetration.

## Pharmaceutical bulk materials

The pharmaceutical bulk materials segment recorded a loss of HK\$2,581,000 which is mainly used for operating expense, research and development, and expense for certification. The management believes that such segmental results will improve remarkably following the commencement of production of new pharmaceutical bulk materials.

During the Period, all projects of Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("Jiangsu Jiwa Rintech") were implemented systematically. Not only did the Cephalosporine plant obtain approval for environment issues and fire protection, it also passed the on-site inspection by the Food and Drug Administration of Jiangsu Province and a production license was issued. The plant is scheduled to complete in December 2007 for an inspection before acceptance. In respect of product certification, Cephalosporine product has passed the on-site examination by the Food and Drug Administration of Jiangsu Province and the approval is estimated to be obtained near the end of this year. After that, trial production will be conducted immediately to prepare for sales next year. In addition, after the Group's application for its first psychiatric pharmaceutical bulk material Citalopram has been accepted for processing by the Food and Drug Administration of United States (FDA) and a registered number of Drug Master File (DMF) has been obtained, whereas the Group's another psychiatric pharmaceutical bulk material Risperidone was also accepted for application processing by FDA in August this year. Obtaining DMF signifies a new milestone for the Group's actual entrance into the US market.

## **SIGNIFICANT EVENTS**

### **Proposed increase of authorized capital**

On 11 June 2007, the Company announced that it proposed to increase its authorized share capital, from HK\$10,000,000 to 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 the meeting.

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

On 17 June 2007, Jiwa Development Company Limited, a wholly owned subsidiary of the Company, 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 kilometers in Fanshi County of Shanxi Province, the PRC.

### **Bonus Issue of Shares**

The Board proposed to make a bonus issue on the basis of two new ordinary shares 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 relevant resolution was passed at the Annual General Meeting of the Company held on 31 August 2007.



## FINANCIAL REVIEW

### Liquidity

As at 30 September 2007, cash and cash equivalents of the Group totaled approximately HK\$18.3 million (31 March 2007: approximately HK\$27.2 million), of which approximately 10.8 % are in Hong Kong dollars, 67.7% in RMB, 21.28% in US dollars, 0.14% in Euro and 0.08% in Macau Pataca.

As at 30 September 2007, the Group had aggregate banking facilities of approximately HK\$163.1 million (31 March 2007: approximately HK\$90.0 million) of which approximately HK\$92.1 million (31 March 2007: approximately HK\$66.3 million) was utilized, as to approximately HK\$19.2 million in long term bank loans, as to approximately HK\$63.7 million in short term bank loans and as to the balance of approximately HK\$9.2 million in letters of guarantee issued by the relevant banks to independent third parties. The Group's aggregate banking facilities of approximately HK\$163.1 million includes approximately HK\$77.6 million equivalent in RMB denominated banking facilities.

The decrease in cash and cash equivalents and the increase in bank loans is mainly a result of the capital expenditure incurred for the new pharmaceutical bulk materials manufacturing plant and the acquisition of 70% of Longchang Company, which possesses the mining rights of iron ores in Fanshi County of Shanxi Province, the PRC.

As at 30 September 2007, the Group had current assets of approximately HK\$163.9 million (31 March 2007: approximately HK\$161.5 million) whilst current liabilities were approximately HK\$101.4 million (31 March 2007: approximately HK\$86.9 million).

**Interest rate risk**

The Group's bank borrowings are mainly denominated in RMB and RMB interest rates have frequently increased during the period. The Group had strategically borrowed the new bank loans mainly denominated in Hong Kong dollars and US dollars in order to minimise the interest rate risk.

As at 30 September 2007, the gearing ratio was approximately 19.5% (31 March 2007: approximately 15.2%), calculated based on the Group's total bank borrowings of approximately HK\$82.9 million (31 March 2007: approximately HK\$56.1 million) over the Group's total assets of approximately HK\$426 million (31 March 2007: approximately HK\$366.7 million).

**Foreign currency risk**

The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 30 September 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 client's credit worthiness. The remuneration of sales staff and marketing agents are structured so that there is a goal congruence in maintaining a robust credit risk management system.

### **Capital commitments**

The Group had capital commitments outstanding as at 30 September 2007 of approximately HK\$9 million (31 March 2007: approximately HK\$10.1 million) of which approximately HK\$2.2 million had been contracted for (31 March 2007: approximately HK\$4.9 million). Funding for the Group's capital commitments would come from internally generated cash flows as well as bank borrowings.

### **Charge on group assets**

As at 30 September 2007, certain of the Group's assets with a net book value of approximately HK\$103.8 million (31 March 2007: HK\$73.1 million) were pledged to a bank to obtain credit facilities.

### **Contingent liabilities**

As at 30 September 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.

## **PROSPECT FOR THE SECOND HALF OF THE YEAR**

### **Capture immense business opportunities from the reform of the pharmaceutical industry in the PRC**

It is planned that the PRC will become a well-off society in a all-round way in 2020, to maintain the public hygiene in a charitable nature, to maintain a prevention oriented, focus on rural areas, balance between Chinese and Western medicine, a separation between administration and operation, a separation between drug and medical practice, enhance government's responsibility and involvement, optimize citizens' health policy, encourage social engagement, to build a public hygiene service system, medical services

system, medical security system and pharmaceuticals supply security system which cover residents in both urban and rural areas so as to provide people with safe, effective, convenient and economy medical and hygiene services. The management considers that the domestic market in the PRC with 1.3 billion of population has already brought great business opportunities to the Group, together with the complementary effects of the medical system reform, hygienic system reform and pharmaceutical circulation reform brings new opportunities to the pharmaceutical corporations.

The Group will leverage on its geographical advantages in the PRC to optimize its brand-building work, and to capture different opportunities in order to actively increase its market share in pharmaceutical industry in the PRC.

In addition, in regard to the uprising costs, the Group will cope with this issue by looking for more new income streams and cost control. In the second half of the year, the Group will continue to execute the rigorous measures of “improving effectiveness while saving cost” which has been successful in the past so as to improve the economic effectiveness of the products.

### **Enhance R&D capability by internal promotion and external acquisition**

During the Period, the administrative department of Kunming municipal government hosted a “corporate technological centre” on-site accreditation assessment. After due assessment and examination led by a group of experts, the Group’s Kunming production base passed the accreditation of both levels in Kunming and Yunnan Province. The accreditation of “corporate technological centres” affirms the Group’s effort and success in the R&D of new drug.

To cope with the Group's international cooperation and development, the Group is now actively setting up a bio-technological research centre, botanical drug research centre as well as drug preparation and prescription system centre. In addition, the Group will co-operate with scientific researchers in Hong Kong, Europe and the United States to conduct the most advanced research projects. Besides new drug development, the Group will also seek for production cost saving proposals in order to increase the investment returns of various products.

### **Initiating iron ore business to inject new forces to the Group's profit growth**

The Group acquired an iron ore business in Shanxi in June this year and is now in the process of productivity enhancement and applying for production. According to market information, the price of powdered iron produced in Shanxi Province has been increasing, the average price rose from RMB600 per ton in June to RMB900 per ton in October. The Management expects that the iron ore business can be included in the next financial year's account and will become another source of income for the Group.

In the background of stability, the management will strive to improve returns for shareholders, and is open for developing in high quality projects; the management will not obviate the possibility of diversifying the Group's businesses. Nevertheless, our pharmaceutical business has maintained a robust growth, together with the Group's advantages in good timing, geographical convenience and excellent human resources, pharmaceutical products will continue to be our core business.

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 September 2007  
(Expressed in Hong Kong dollars)

		<b>Six months ended</b>	
		<b>30 September</b>	
	Note	<b>2007</b>	2006
		<b>\$'000</b>	\$'000
		<b>(Unaudited)</b>	(Unaudited)
<b>Turnover</b>	2	<b>132,136</b>	99,103
Cost of sales		<b>70,070</b>	(52,066)
Gross profit		<b>62,066</b>	47,037
Other revenue		<b>1,740</b>	405
Other net income/(loss)		<b>1,184</b>	117
Selling expenses		<b>(16,532)</b>	(10,572)
Administrative expenses		<b>(20,843)</b>	(18,285)
Share-based payment expenses	14	<b>(837)</b>	(1,085)
Other operating expenses		<b>(436)</b>	(643)
<b>Profit from operations</b>		<b>26,342</b>	16,974
Finance cost	3	<b>(2,484)</b>	(1,204)
<b>Profit before tax</b>	3	<b>23,858</b>	15,770
Taxation	4	<b>(3,674)</b>	(1,818)
<b>Profit for the period</b>		<b>20,184</b>	13,952
<b>Attributable to:</b>			
Equity holders of the Company		<b>15,015</b>	11,117
Minority interest		<b>5,169</b>	2,835
		<b>20,184</b>	13,952
Earnings per share			
— Basic	6	<b>0.98 cents</b>	2.22 cents
— Diluted	6	<b>0.98 cents</b>	2.22 cents

The notes on page 18 to 31 form part of this interim financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 September 2007

(Expressed in Hong Kong dollars)

		At 30 September 2007 \$'000 (Unaudited)	At 31 March 2007 \$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>163,603</b>	159,291
Land use rights	8	<b>27,357</b>	26,978
Construction in progress		<b>36,768</b>	8,912
Intangible assets		<b>1,483</b>	2,356
Goodwill	9	<b>25,942</b>	942
Available-for-sale financial assets		<b>1,268</b>	1,229
Deferred tax assets		<b>5,617</b>	5,536
		<b>262,038</b>	205,244
<b>Current assets</b>			
Inventories		<b>44,191</b>	39,041
Accounts and bills receivable	10	<b>72,328</b>	69,715
Land use rights	8	<b>654</b>	635
Prepayments and other receivables		<b>26,602</b>	22,826
Amount due from related companies	16	<b>1,852</b>	2,080
Tax recoverable		<b>—</b>	—
Cash and cash equivalents	11	<b>18,316</b>	27,192
		<b>163,943</b>	161,489

	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2007</b>	2007
<i>Notes</i>	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Audited)
<b>Current liabilities</b>		
Bank loans	<b>57,006</b>	44,234
Accounts and bills payable	<b>37,484</b>	31,873
Amount due to related companies	<b>874</b>	—
Amount due to a director	<b>96</b>	96
Accrued expenses and other payables	<b>4,117</b>	9,264
Tax payable	<b>1,881</b>	1,417
	<b>101,458</b>	86,884
<b>Net current assets</b>	<b>62,485</b>	74,605
<b>Total assets less current liabilities</b>	<b>324,523</b>	279,849
<b>Non current liabilities</b>		
Bank loans	<b>25,842</b>	11,911
<b>Net Assets</b>	<b>298,681</b>	267,938
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>16,050</b>	5,000
Reserves	<b>236,451</b>	223,105
Equity attributable to equity holders of the Company	<b>252,501</b>	228,105
Minority interest	<b>46,180</b>	39,833
	<b>298,681</b>	267,938

The notes on 18 to 31 form part of this interim financial statements.



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	General reserve fund (i) \$'000	Enterprise expansion fund (ii) \$'000	Revaluation adjustment (iii) \$'000	Share option reserve \$'000	Translation reserve \$'000	Capital reserve (j) \$'000	Retained Profits \$'000	Total \$'000	Minority interest \$'000	Total \$'000
<b>(Audited)</b>													
<b>At 1 April 2006</b>	5,000	52,609	2,000	561	57	(320)	-	2,549	2,830	140,449	205,735	34,929	240,664
Dividend approved in respect of the previous year (Note 5)	-	-	-	-	-	-	-	-	-	(5,000)	(5,000)	-	(5,000)
Employee share based compensation (Note 14)	-	-	-	-	-	-	1,084	-	-	-	1,084	-	1,084
Transfer to reserves	-	-	-	(14)	-	-	-	-	-	14	-	-	-
Dividend declared and payable to minority interests	-	-	-	-	-	-	-	-	-	-	-	(2,324)	(2,324)
Translation difference	-	-	-	-	-	-	-	5,226	-	-	5,226	1,233	6,459
Profit for the year	-	-	-	-	-	-	-	-	-	21,060	21,060	5,995	27,055
<b>At 31 March 2007</b>	5,000	52,609	2,000	547	57	(320)	1,084	7,775	2,830	156,523	228,105	39,833	267,938
<b>(Unaudited)</b>													
<b>At 1 April 2007</b>	5,000	52,609	2,000	547	57	(320)	1,084	7,775	2,830	156,523	228,105	39,833	267,938
Final dividend approved in respect of the previous years (Note 5)	-	-	-	-	-	-	-	-	-	(6,420)	(6,420)	-	(6,420)
Issue of shares on the exercise of share options	350	10,357	-	-	-	-	-	-	-	-	10,707	-	10,707
Bonus issue of shares	10,700	(10,700)	-	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange translation	-	-	-	-	-	-	-	4,257	-	-	4,257	1,178	5,435
Employee share based compensation (Note 14)	-	-	-	-	-	-	837	-	-	-	837	-	837
Profit for the Period	-	-	-	-	-	-	-	-	-	15,015	15,015	5,169	20,184
<b>At 30 September 2007</b>	16,050	52,266	2,000	547	57	(320)	1,921	12,032	2,830	165,118	252,501	46,180	298,681

### Notes:

- (i) Upon completion of the capital verification on 25 April 2003, KJP capitalised the enterprise expansion fund of RMB3,000,000 to its registered share capital according to a board resolution of KJP dated 18 January 2003. The amount was recognised as capital reserve in the consolidated balance sheet.
- (ii) In accordance with the Company's articles of association and equity joint venture agreement, the subsidiaries in the PRC are required to set up a general reserve fund and an enterprise expansion fund, which were non-distributable. The transfers of these reserves are at discretion of the directors of the respective subsidiaries.
- (iii) Revaluation adjustment represents the fair value adjustment, which is attributed to the 5% increase in the shareholding of KJP. It is the portion of revaluation difference that arose since the original acquisition date that is attributable to the increase in the Group's interest. This reserve adjustment will be recognised in the income statement upon the earlier of the disposal of the subsidiary or the disposal by the subsidiary of the assets to which it relates.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>19,757</b>	14,085
Cash outflow from investing activities	<b>(57,139)</b>	(4,547)
Net cash inflow/(outflow) from financing activities	<b>28,506</b>	(16,183)
Net decrease in cash and cash equivalents	<b>(8,876)</b>	(6,645)
Cash and cash equivalents at 1 April	<b>27,192</b>	27,738
Cash and cash equivalents at 30 September	<b>18,316</b>	21,093

The notes on page 18 to 31 form part of this interim financial statements

## **NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

*For the six months ended 30 September 2007*

*(Expressed in Hong Kong dollars)*

### **1 Basis of preparation and principal accounting policies**

The unaudited condensed consolidated accounts for the six months ended 30 September 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The unaudited condensed consolidated accounts have been prepared on the historical cost basis. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2007.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2007, as described in the annual financial statements for the year ended 31 March 2007.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31 March 2007.

- Amendment to HKAS 1, Amendments to 'Capital Disclosures', applicable for annual periods beginning on or after 1 January 2007;
- HKFRS 7, 'Financial Instruments: Disclosures', applicable for annual periods beginning on or after 1 January 2007;
- HK(IFRIC) Interpretation 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006;
- HK(IFRIC) Interpretation 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006;
- HK(IFRIC) Interpretation 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006;
- HK(IFRIC) Interpretation 11, 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007;

The adoption of these new HKFRSs has no material effect on the Group's result and financial position for the current or prior accounting periods reflected in these financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKFRS 8, 'Operating Segments' effective for annual periods beginning on or after 1 January 2009;
- HK(IFRIC) Interpretation 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008; and
- HKAS 23 (Revised), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009.

The Directors of the Company anticipate that the application of these new HKFRS will have no material impacts on the financial statements of the Group.

The interim financial statements have been authorised for issue by the Board of Directors (the "Board") on 10 December 2007. These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

## 2 Segment reporting

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

### For the six months ended 30 September

	Pharmaceutical		Trading		Health Care		Pharmaceutical		Consolidated	
	Products		Products		Products		Bulk Materials			
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>										
Anti-infectious	45,459	33,935	-	165	-	-	-	-	45,459	34,100
Gastro-intestinal	14,936	6,800	21,762	19,288	-	-	-	-	36,698	26,088
Musculo-skeletal	31,295	23,585	10,893	8,937	-	-	-	-	42,188	32,522
Cerebro-cardiovascular	908	332	-	-	-	-	-	-	908	332
Others	2,428	1,926	-	-	4,436	4,135	19	-	6,883	6,061
	<b>95,026</b>	<b>66,578</b>	<b>32,655</b>	<b>28,390</b>	<b>4,436</b>	<b>4,135</b>	<b>19</b>	<b>-</b>	<b>132,136</b>	<b>99,103</b>
<b>Segment results</b>	<b>23,222</b>	<b>13,780</b>	<b>6,844</b>	<b>7,003</b>	<b>(1,370)</b>	<b>(342)</b>	<b>(2,581)</b>	<b>(2,382)</b>	<b>26,115</b>	<b>18,059</b>
Less: Unallocated (expenses)/income									<b>1,063</b>	<b>-</b>
									<b>27,179</b>	<b>18,059</b>
- Share-based payment expenses									<b>(837)</b>	<b>(1,085)</b>
- Finance costs									<b>(2,484)</b>	<b>(1,204)</b>
- Taxation									<b>(3,674)</b>	<b>(1,818)</b>
- Minority interests									<b>(5,169)</b>	<b>(2,835)</b>
Profit attributable to shareholders									<b>15,015</b>	<b>11,117</b>

### 3 Profit from ordinary activities before taxation

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
Cost of inventories*	<b>69,988</b>	51,014
Staff costs	<b>6,958</b>	6,404
Retirement costs	<b>785</b>	628
Depreciation	<b>4,831</b>	4,017
Operating lease charges in respect of premises	<b>1,256</b>	1,240
Interest on bank advances wholly repayable within five years	<b>2,484</b>	1,204
Research and development costs	<b>512</b>	1,132

\* Cost of inventories includes \$3,846,168 (2006: \$2,513,000) relating to staff cost, depreciation expenses, operating lease charges and retirement costs, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

### 4 Taxation

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Current tax</b>		
Provision for Hong Kong Profits Tax	<b>649</b>	731
Provision for PRC income tax	<b>2,923</b>	985
	<b>3,572</b>	1,716
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>102</b>	102
	<b>3,674</b>	1,818

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

Profits of Kunming Jida Pharmaceutical Co. Ltd (“KJP”), a subsidiary of the Company in the People’s Republic of China (the “PRC”) was subject to PRC income tax at 24%. As KJP is recognised as a new high technology enterprise, according to the Provisions on the Tax Policy of State High Technology Development Zone, Kunming, KJP is entitled to a reduced tax rate of 15%. On 18 January 2002, KJP received an approval from the local tax bureau, pursuant to which KJP was granted a 50% tax relief for the period up to 31 December 2004. As stipulated by Implementation Procedures of the Ministry of Finance on the Adoption of Rules Governing Preferential Tax Treatments in the “Provisions of the State Council for the Encouragement of Foreign Investment”, the minimum PRC income tax rate applicable to a new high technology enterprise is 10%. Consequently, KJP was granted a preferential tax rate of 10% from 1 January 2002 to 31 December 2004 pursuant to approval documents issued by the local tax bureau on 14 March 2003 and 17 January 2004.

## 5 Dividends

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
Dividend approved during the period	<b>6,420</b>	5,000

Pursuant to the resolutions passed at the shareholders’ meeting on 31 August 2007, a final dividend of HK\$6,420,000 (2006: HK\$5,000,000) payable to the shareholders of the Company was declared and approved in respect of the year ended 31 March 2007.

The Board does not recommend the payment of an interim dividend for the Period (2006: Nil).

## 6 Earnings per share

The calculation of basic earnings per share is based on the Group's profits attributable to shareholders of HK\$15,015,000 (2006: HK\$11,117,000) and on the weighted average of 1,534,344,261 (2006: 500,000,000) ordinary shares in issue during the period.

The diluted earnings per share is based on the profit attributable to shareholders of HK\$15,015,000 (2006: HK\$11,117,000) and the weighted average of 1,534,344,261 (2006: 500,725,932) ordinary shares in issue during the period, after adjusting the effect of all dilutive potential share under the Company's share option scheme.

The computation of basic and diluted earnings per share for the six months ended 30 September 2007 has been adjusted for the effect of bonus issue during the period.

## 7 Property, plant and equipment

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	At 31 March 2007 \$'000 (Audited)
<b>Opening net book amount</b>		
<b>At 1 April 2007/1 April 2006</b>	<b>159,291</b>	125,357
Acquisition of a subsidiary	<b>625</b>	—
Additions	<b>3,610</b>	4,022
Disposals	—	(1,574)
Depreciation	<b>(4,831)</b>	(8,118)
Transfer from construction in progress	<b>48</b>	35,524
Transfer to construction in progress	—	(804)
Translation difference	<b>4,860</b>	4,884
<b>Net book amount</b>		
<b>At 30 September 2007/31 March 2007</b>	<b>163,603</b>	159,291

As at 30 September 2007, certain assets (buildings) of the Group with an aggregate carrying value of approximately HK\$86,979,000 (31 March 2007: HK\$73,114,000) were pledged to secure loans and borrowing facilities utilized by the Group.



## 8 Land use right

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	At 31 March 2007 \$'000 (Audited)
<b>Opening net carry amount</b>		
<b>At 1 April 2007/1 April 2006</b>	<b>27,613</b>	27,323
Annual charges of prepaid operating lease payment	<b>(327)</b>	(635)
Translation difference	<b>725</b>	925
<b>Net carrying amount</b>		
<b>At 30 September 2007/31 March 2007</b>	<b>28,011</b>	27,613

Land use rights with carrying amount of HK\$17,042,000 (31 March 2007: HK\$7,066,000) was pledged to secure bank loans and borrowing facilities utilized by the Group.

## 9 Goodwill

	<b>30 September 2007 \$'000</b>
Opening net book amount at 1 April 2007	942
Goodwill arising from acquisition of subsidiary during the period	25,000
Closing net book amount	25,942

On 17 June 2007, the Group 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 mining rights of iron ores in an area comprising approximately 3 square kilometers in Fanshi County of Shanxi Province, the PRC.

## 10 Accounts and bills receivable

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

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	<b>At 31 March 2007 \$'000 (Audited)</b>
Within 3 months	<b>41,409</b>	37,977
Aged over 3 months but less than 6 months	<b>17,584</b>	10,667
Aged over 6 months	<b>10,089</b>	20,768
	<b>69,082</b>	69,412
Bills receivable	<b>3,246</b>	303
	<b>72,328</b>	69,715

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

## 11 Cash and cash equivalents

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	<b>At 31 March 2007 \$'000 (Audited)</b>
Cash at bank and in hand	<b>18,316</b>	27,192

## 12 Accounts and bills payable

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

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	At 31 March 2007 \$'000 (Audited)
Accounts payable		
— Due within 1 month or on demand	<b>10,461</b>	8,879
— Due after 1 month but within 3 months	<b>15,789</b>	13,836
— Due after 3 months but within 6 months	<b>1,388</b>	1,278
— Due over 6 months	<b>58</b>	—
Bills payable	<b>9,788</b>	7,880
	<b><u>37,484</u></b>	<u>31,873</u>

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

### 13 Share capital

	At 30 September 2007		At 31 March 2007	
	No. of shares	Amount \$'000 (Unaudited)	No. of shares	Amount \$'000 (Audited)
<b>Authorised:</b>				
Ordinary shares of \$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>10,000</u>
<b>Issued and fully paid:</b>				
	<u>1,605,000,000</u>	<u>16,050</u>	<u>500,000,000</u>	<u>5,000</u>

A summary of the movements in the issued capital of the Company is as follows:

	At 30 September 2007	
	No. of shares	Amount \$'000
At 1 April 2007	<b>500,000,000</b>	<b>5,000</b>
Issue of shares on exercise of share options	<b>35,000,000</b>	<b>350</b>
Bonus issue of shares	<u><b>1,070,000,000</b></u>	<u><b>10,700</b></u>
At 30 September 2007	<u><b>1,605,000,000</b></u>	<u><b>16,050</b></u>

During the period, bonus issue of two new shares of HK\$0.01 was credited as fully paid for every one share held by the shareholders whose name appeared on the register of members of the Company on 31 August 2007.

## 14 Share-based employee compensation

### (i) Share option scheme

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

	As at 1 April 2007	Granted during the Period	Exercised during the Period	As at 30 September 2007	Date of grant	Exercise Period	Exercise price per share
<b>Directors</b>							
Lau Yau Bor	5,000,000	-	5,000,000	-	29/12/2004	29/12/2004 to 28/12/2009	HK\$0.336
	5,000,000	-	5,000,000	-	12/4/2006	12/4/2006 to 11/4/2011	HK\$0.280
Lau Kin Tung	5,000,000	-	5,000,000	-	12/4/2006	12/4/2006 to 11/4/2011	HK\$0.280
		5,000,000	5,000,000	-	12/4/2007	12/4/2007 to 11/4/2012	HK\$0.315
Chan Hing Ming	5,000,000	-	5,000,000	-	29/12/2004	29/12/2004 to 28/12/2009	HK\$0.336
	5,000,000	-	5,000,000	-	12/4/2006	12/4/2006 to 11/4/2011	HK\$0.280
		5,000,000	5,000,000	-	12/4/2007	12/4/2007 to 11/4/2012	HK\$0.315
<b>Total</b>	<b>25,000,000</b>	<b>10,000,000</b>	<b>35,000,000</b>	<b>-</b>			

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

### (ii) Valuation of options

On 12 April 2007, the Company granted 10,000,000 share options to the directors of the Company. The fair value of the options granted during the period had a fair value of HK\$837,000 and were determined using the Binomial model. Significant inputs into the calculation were as follows:

Share price	HK\$0.315
Exercise price	HK\$0.315
Expected volatility	34%
Expected option life	5 Years
Weighted average annual risk free interest rate	4.068%
Expected dividend yield	4%
Suboptimal exercise factor	2

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 Funds Notes as at the grant date.

## 15 Commitments

### (a) Commitments under operating leases

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

	<b>At</b> <b>30 September</b> <b>2007</b> <b>\$'000</b> <b>(Unaudited)</b>	At 31 March 2007 \$'000 (Audited)
Within one year	<b>2,048</b>	2,457
After one year but within five years	<b>152</b>	599
	<b><u>2,200</u></b>	<b><u>3,056</u></b>

### (b) Capital commitments

The Group had capital commitments outstanding as at 30 September 2007 not provided for in the interim financial statements as follows:

	<b>At</b> <b>30 September</b> <b>2007</b> <b>\$'000</b> <b>(Unaudited)</b>	At 31 March 2007 \$'000 (Audited)
Contracted for		
—acquisition of property, plant and equipment	<b>1,595</b>	2,342
—acquisition of technical know-how	<b>638</b>	2,607
	<b><u>2,232</u></b>	<b><u>4,949</u></b>
Authorised but not contracted for		
—acquisition of property, plant and equipment	<b>6,719</b>	5,140
	<b><u>8,951</u></b>	<b><u>10,089</u></b>

## 16 Material related party transactions

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

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2007</b>	2006
<i>Notes</i>		<b>\$'000</b>	\$'000
		<b>(Unaudited)</b>	(Unaudited)
Sales of goods:			
	–Yunnan Pharmaceutical and Industrial Corporation Limited and its subsidiaries (“Yunnan Pharm Group”) (i)	<b>5,336</b>	3,941
	–Yunnan Jiwa Pharm Logistics Company Limited (“YJPL”) (ii)	<b>5,942</b>	
Rentals paid:			
	–Mr. Lau Yau Bor (iii)	<b>288</b>	30
	–Mr. Lau Kin Tung (iv)	–	48
	–Jiwa Investment Limited (v)	<b>828</b>	1,058

### Notes:

- (i) Yunnan Pharm Group is a minority shareholder of Kunming Jida Pharmaceutical Co. Ltd, a subsidiary of the Group. The Group sold pharmaceutical products to Yunnan Pharm Group, based on the prevailing market prices.
- (ii) YJPL is a subsidiary of Jiwa Pharm & Chemicals Limited, which is controlled by Mr. Lau Yau Bor and Mr. Lau Kin Tung, Directors of the Company. YJPL is one of the distributors of the Group’s pharmaceutical products in the PRC. Sales of YJPL were based on prevailing marketing prices.
- (iii) During the relevant period, a Director, Mr Lau Yau Bor, leased a staff quarter to the Group. The terms were negotiated on an arm’s length basis and rentals are determined in accordance with the prevailing market rate.
- (iv) During the relevant period, a Director, Mr Lau Kin Tung, leased a staff quarter to the Group. The terms were negotiated on an arm’s length basis and rentals are determined in accordance with the prevailing market rate.

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

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

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

Amount due from related companies

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	<b>At 31 March 2007 \$'000 (Audited)</b>
Yunnan Pharm Group	<b>1,852</b>	2,031
YJPL	<b>—</b>	49
	<b><u>1,852</u></b>	<u>2,080</u>

Amount due to related companies

	<b>At 30 September 2007 \$'000 (Unaudited)</b>	<b>At 31 March 2007 \$'000 (Audited)</b>
YJPL	<b>874</b>	—
	<b><u>874</u></b>	<u>—</u>

**17 Approval of the interim financial statements**

The interim financial statements were approved by the Board on 10 December 2007.



## **OTHER INFORMATION**

### **EMPLOYMENT AND REMUNERATION POLICY**

As at 30 September 2007, the Group had a total of approximately 521 employees (31 March 2007: 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 share options to eligible employees under its share option scheme.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

There were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2007.

### **SHARE OPTION SCHEME**

The Company has a share option scheme which was adopted on 24 September 2003 whereby the Directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and consultants and advisers to the Group (subject to the eligibility requirements) to take up options to subscribe for shares of the Company representing up to a maximum of 10% of the shares in issue from time to time. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options vested are exercisable within a period of five years from date of grant. Each option gives the holder the right to subscribe for one share.

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

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executives' Interests in Shares

As at 30 September 2007, no Directors or chief executive of the Company, save as disclosed below, had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, which were notified to the Company and the Stock Exchange:

#### (i) Interests in issued Shares

Name of Director	Personal interests (Note 1)	Family interests	Share corporate interests	Total number of shares held	% of total issued shares
Lau Yau Bor	97,878,000	119,802,000 (Note 2)	840,000,000 (Note 4)	1,057,680,000	65.89%
Lau Kin Tung	28,650,000	–	105,000,000 (Note 5)	133,650,000	8.33%
Chan Hing Ming	44,802,000	937,878,000 (Note 3)	75,000,000 (Note 6)	1,057,680,000	65.89%

*Notes:*

1. The shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.
2. 75,000,000 Shares are held by MINGS Development Holdings Limited which is wholly and beneficially owned by Chan Hing Ming, the spouse of Lau Yau Bor, 44,802,000 shares are held by Chan Hing Ming as beneficial owner.
3. 840,000,000 Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming, 97,878,000 shares are held by Lau Yau Bor as beneficial owner.
4. These shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.
5. These shares are held by WHYS Holding Co. Ltd., the entire issued share capital of which is held by Lau Kin Tung.
6. These shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

**(ii) *Interests in underlying Shares***

The directors and chief executive of the Company have been granted options under the Company's share option scheme (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 interest or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## **Substantial Shareholders' Interests**

As at 30 September 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 shares as at 30 September 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.

## **Directors' Rights to Acquire Shares or Debentures**

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

## **CORPORATE GOVERNANCE**

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

## **DIRECTOR'S SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors. The Company, having made specific enquiry, confirms that all directors have complied with the required standards set out in Model Code throughout the six months ended 30 September 2007.

## **REVIEW OF INTERIM RESULTS**

The audit committee, comprising of the three independent non-executive directors of the Company, has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 September 2007.

## **APPRECIATION**

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

By Order of the Board

**Lau Kin Tung**

*Vice Chairman and Chief Executive Officer*

Hong Kong, 10 December 2007