



積華

Jiwa Bio-Pharm Holdings Limited

積華生物醫藥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2327)



Interim **2008** Report



* for identification only

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Lau Yau Bor (*Chairman*)

Mr. Lau Kin Tung
(*Vice Chairman and Chief
Executive Officer*)

Madam Chan Hing Ming

Independent Non-Executive Directors

Mr. Chiu Wai Piu

Mr. Choy Ping Sheung

Mr. Fung Tze Wa

Company Secretary

Mr. Chu Kim Ho (FCCA, FCPA)

Audit Committee

Mr. Fung Tze Wa (*Chairman*)

Mr. Chiu Wai Piu

Mr. Choy Ping Sheung

Remuneration Committee

Mr. Choy Ping Sheung (*Chairman*)

Mr. Chiu Wai Piu

Mr. Fung Tze Wa

Nomination Committee

Mr. Chiu Wai Piu (*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

Nanyang Commercial Bank Limited
Industrial and Commercial Bank
of China (Asia) Limited
The Hongkong and Shanghai
Banking Corporation Limited

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

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

Company Website

www.jiwa.com.hk

Stock Code

2327

MANAGEMENT DISCUSSION AND ANALYSIS

The directors (the "Directors" or the "Board") 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 2008 (the "Period").

FINANCIAL HIGHLIGHTS

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Six months ended		Increase
	30 September		
	2008	2007	
	\$'000	\$'000	
Turnover	186,381	132,136	41%
Gross profit	79,343	62,066	28%
Profit from operations	32,927	26,342	25%
Profit attributable to equity holders	23,384	15,015	56%
Earnings per share – basic			
(HK cents)	1.46	0.98	49%

RESULTS

Operations of the Group remained on a positive trend for the first half of 2008 with outstanding performance. During the Period, the turnover of the Group amounted to HK\$186,381,000, representing an increase of 41% over the corresponding period last year; profit attributable to equity holders amounted to HK\$23,384,000 representing a surge of 56% compared to the corresponding period last year.

DIVIDENDS

The Board does not recommend a payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

INDUSTRY REVIEW

According to the statistics on the pharmaceutical industry issued by the National Bureau of Statistics of China, the sales income from pharmaceutical industry during the period between January and August 2008 increased by 28.8% over the corresponding period last year, while the gross profit increased by 39.8% over the corresponding period last year. The pharmaceutical industry remained on a fast growth momentum, enjoying promising prospects.

According to market forecasts, the pharmaceutical economy will maintain a fast growing pace in 2009. The new medical system reform will bring an expansion opportunity in the PRC market, and the industry will further concentrate and the price level of medicines will stabilize, which will provide solid industrial advantages and sound business development conditions to the Group.

BUSINESS REVIEW

During the period under review, the Group sold 33 types of drugs in total, in which the anti-infectious drugs accounted for 29.4%, musculo-skeletal and gastro-intestinal specialized drugs accounted for 29.3% and 35.4% respectively, whereas cerebral-cardiovascular and other specialized drugs accounted for 3.8% of the total sales. Among these, pharmaceutical products self-produced and sold by the Group ("Pharmaceutical Products") accounted for 79.2% of the total sales, European pharmaceutical products distributed by the Group ("Trading

Pharmaceutical Products”) accounted for 19.5% of the total sales, whereas health care products produced and sold by the Group and pharmaceutical bulk materials accounted for 0.9% and 0.4% of the total sales respectively.

Pharmaceutical Products and Trading Pharmaceutical Products

During the Period, the turnover of Pharmaceutical Products and Trading Pharmaceutical Products increased by 55.5% and 11.3% to HK\$147,718,000 and HK\$36,339,000 respectively; segment results increased by 9.3% and 45.1% to HK\$25,381,000 and HK\$9,932,000 respectively. The increase in sales was mainly due to strengthening of the Group’s brand name effect, expansion of sales network, and penetration of sales into the rural market. On the other hand, specialized new products with high profit margin were used by hospitals in major cities. The total sales of newly launched specialized drugs “Artrodar”, “Shi Si Tai”, “Huo Duo Shi” and “Jida Bente” increased by 113.2% as compared with the corresponding period last year, which reflected the emerging effects on the Group’s strategy on product mix, with the profit margin of newly launched specialized drugs maintained at a level of 69% during the Period.

However, the Group also faced the challenge of increased prices of antibiotics bulk materials. During the Olympic Game, some of the manufacturers were required to suspend production due to non-compliance of the State’s environmental protection policy requirement, resulting in a general surge in the prices of bulk materials. Nonetheless, the supply of bulk materials has returned to stable after a series of market adjustment. The management expects that there is hope for a downturn in the overall cost during the second half of the year.

The Group obtained the production approval of 3 types of specialized Pharmaceutical Products during the Period, including Citalopram Tablets, Sucralfate Gel Suspension and Edaravone Injection. Citalopram Tablets is a medicine used for anti-depression and the treatment of mental disorders. Apart from domestic sales, the Group is also developing the regulated markets, and has been negotiating for cooperation with distributors in Canada and the United States. Sucralfate Gel Suspension, a gastro-intestinal drug, is a unique dosage form in the PRC, it is clinically applied mainly for the treatment of diseases such as gastric ulcer, duodenal ulcer, acute gastro-enteritis and chronic gastro-enteritis with syndromes, gastro-enteritis caused by non-steroidal anti-inflammatory drug and esophageal ulcer. Edaravone Injection is mainly used for the treatment of stroke, improvement of nerve syndromes, activities of daily living and dysfunction caused by acute stroke.

It is expected that the above three new drugs, together with Risedronate Tablets that has obtained the production approval last year, will be launched in the market in 2009. As the bulk materials of these new drugs are self-produced by the Group, we are able to enjoy a higher profit margin and ensure the supply of bulk material and product quality, which in turn result in advantages in price and quality for the products' market introduction.

Health Care Products

During the Period, the sales of Health Care Products amounted to HK\$1,608,000, with the segmental results of HK\$370,000. In view of severe competition within the health care products market in Hong Kong, the Group will continue to implement rigorous control on the sales expenses.

Pharmaceutical Bulk Materials

During the Period, the pharmaceutical bulk materials segment recorded a loss of HK\$3,169,000, representing an increase of 22.8% over the corresponding period last year, which was mainly due to the recruitment of management personnel and technicians and additions to equipments.

In September 2008, the production of Citalopram in the bulk materials production plant in Jiangsu was awarded the GMP certification. The certification not only reflected that the production and quality management level of the Company has reached the state's SFDA standard, but also facilitated the market development of Citalopram in the domestic market and overseas semi-regulated markets. The Group has entered into supply agreements of Citalopram bulk materials with a number of large scale pharmaceutical enterprises in the PRC. Meanwhile, a number of distributors in overseas semi-regulated markets have initiated the import registration procedures of the Group's Citalopram in the drug regulation authorities in their countries.

The GMP certification of Citalopram further enhanced the popularity and reputation of the Group in domestic and overseas markets, and laid down a solid foundation for the export business of the Group. Our marketing department expects that this product will contribute to the Group's profits in the coming year. In addition, with the formal initiation of sales in foreign markets, the sales of this product will increase with a leap, and the sales prospects of this product is promising.

Key R & D Projects

In December 2007, the Group and GeneHarbor (Hong Kong) Technologies Limited set up a joint venture to develop low-cost Reduced Glutathione by using a novel enzymatic technology. This project progressed well, as the research has been completed and enters into the stage of stepped-up trial production. Industrial production will commence and the Group will apply for GMP certification once the approval document of environmental protection is issued.

Reduced Glutathione is set to become a major profit growth engine of the Group. This product not only possesses technology advantages of low cost to existing product of the Group, it can also drive the development of international markets effectively with its innovative technology content. The Group will devote more efforts on the expansion of the Jiwa brand from the PRC market toward international pharmaceutical markets.

FINANCIAL REVIEW

Liquidity

As at 30 September 2008, cash and cash equivalents of the Group totaled approximately HK\$65.2 million (31 March 2008: approximately HK\$20.8 million), of which approximately 26.2% are in Hong Kong dollars, 23.5% in RMB, 23.3% in US dollars, 26.9% in Euro and 0.1% in Macau Pataca.

As at 30 September 2008, the Group had aggregate banking facilities of approximately HK\$197.7 million (31 March 2008: approximately HK\$189.6 million) of which approximately HK\$152 million (31 March 2008: approximately HK\$119.5 million) was utilized, as to approximately HK\$111.2 million in long term bank loans, as to approximately HK\$19.7 million in short term bank loans and as to the balance of approximately HK\$21.1 million in letters of guarantee issued by the relevant banks to independent third parties. The Group's aggregate banking facilities of approximately HK\$197.7 million include approximately HK\$114.6 million equivalent in US dollars denominated banking facilities.

The increase in cash and cash equivalents is mainly a result of the cash flow generated from operating activities and increase in bank loans.

As at 30 September 2008, the Group had current assets of approximately HK\$254.0 million (31 March 2008: approximately HK\$226.8 million) whilst current liabilities were approximately HK\$75.0 million (31 March 2008: approximately HK\$123.8 million).

Interest Rate Risk

In view of comparatively high RMB interest rates, 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 during the period.

As at 30 September 2008, the gearing ratio was approximately 24% (31 March 2008: approximately 18%), calculated based on the Group's total bank borrowings of approximately HK\$130.9 million (31 March 2008: approximately HK\$91.5 million) over the Group's total assets of approximately HK\$547.9 million (31 March 2008: approximately HK\$506.2 million). The increase in gearing ratio is mainly due to the higher working capital requirement for business expansion and new project investment.

Foreign Currency Risk

The Group has for its hedging purposes a 1 million US dollar and 1 million Euro forward exchange contract banking facility in place as at 30 September 2008 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 2008 of approximately HK\$9.0 million (31 March 2008: approximately HK\$5.9 million) of which approximately HK\$9.0 million had been contracted for (31 March 2008: approximately HK\$5.9 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 2008, bank loans amounting to approximately HK\$128 million (31 March 2008: HK\$85.7 million) were secured by certain assets of the Group having a net book value of approximately HK\$114.8 million (31 March 2008: HK\$113.6 million).

Contingent Liabilities

As at 30 September 2008, 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

With the widening of the financial tsunami, many industries have been impacted in this turmoil. However, the market is of the view that the pharmaceutical industry is still in a relatively stable condition. The management expects that the Group will continue to benefit from the interactive roll out of the medical insurance system reform, health system reform and pharmaceutical circulation system reform. The Group is well prepared for the gradual establishment of national rural cooperative medical system and the perfection of urban social medical system, and strategies are laid out for special opportunities brought to the pharmaceutical industry.

The current global economic environment has resulted in a seemingly unfavourable condition for the pharmaceutical export industry in the PRC. For the Group, such a condition means a challenge as well as a rare opportunity. As the prices of patented drugs are driven high, it is expected that the worldwide demand for generic drugs as well as quality popular drug will increase. As a manufacturer of generic drug well known for its high quality, the Group will leverage on this opportunity with innovative technologies invested in recent years to explore the international markets, and to lead the Group progressing from the phase of "stable growth" to "high growth".

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

		Six months ended	
		30 September	
		2008	2007
	Notes	\$'000	\$'000
		(Unaudited)	(Unaudited)
Turnover	2	186,381	132,136
Cost of sales		(107,038)	(70,070)
Gross profit		79,343	62,066
Other net income		3,706	2,924
Selling expenses		(21,261)	(16,532)
Administrative expenses		(26,647)	(20,843)
Share-based employee compensation	13	(1,285)	(837)
Other operating expenses		(929)	(436)
Profit from operations		32,927	26,342
Finance costs		(2,173)	(2,484)
Share of results of associates		(71)	—
Profit before income tax	3	30,683	23,858
Income tax expense	4	(520)	(3,674)
Profit for the period		30,163	20,184
Attributable to:			
Equity holders of the Company		23,384	15,015
Minority interest		6,779	5,169
Profit for the period		30,163	20,184
Earnings per share			
— Basic	6	1.46 cents	0.98 cents
— Diluted	6	1.45 cents	0.98 cents

The notes on page 17 to 31 form part of this interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 September 2008

(Expressed in Hong Kong dollars)

		At	At
		30 September	31 March
		2008	2008
	Notes	\$'000	\$'000
		(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	170,941	168,875
Land use rights	8	23,143	22,830
Construction in progress		50,736	42,810
Interests in associates		14,911	12,982
Intangible assets		2,701	593
Goodwill		978	978
Available-for-sale financial assets		26,920	26,874
Deferred tax assets		3,533	3,469
		293,863	279,411
Current assets			
Inventories		58,064	57,962
Accounts and bills receivable	9	93,482	101,473
Land use rights	8	651	631
Prepayments and other receivables		16,393	23,388
Amount due from related companies	15	17,265	19,651
Amount due from investee company		2,918	2,878
Tax recoverable		2	54
Cash and cash equivalents	10	65,273	20,774
		254,048	226,811

		At	At
		30 September	31 March
		2008	2008
	<i>Notes</i>	\$'000	\$'000
		(Unaudited)	(Audited)
Current liabilities			
Bank loans		19,681	49,706
Accounts and bills payable	11	35,759	55,005
Accrued expenses and other payables		13,713	15,812
Tax payable		5,879	3,284
		75,032	123,807
Net current assets		179,016	103,004
Total assets less current liabilities		472,879	382,415
Non current liabilities			
Bank loans		111,209	41,826
Net Assets		361,670	340,589
CAPITAL AND RESERVES			
Share capital		16,050	16,050
Reserves	12	291,699	278,891
Equity attributable to equity holders of the Company		307,749	294,941
Minority interest		53,921	45,648
		361,670	340,589

The notes on 17 to 31 form part of this interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2008
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company												
	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	General reserve fund (ii) \$'000	Enterprise expansion fund (ii) \$'000	Revaluation adjustment (iii) \$'000	Share option reserve \$'000	Translation reserve \$'000	Capital reserve (i) \$'000	Retained Profits \$'000	Total \$'000	Minority interest \$'000	Total \$'000
(Audited)													
At 1 April 2007	5,000	52,609	2,000	547	57	(320)	1,084	7,775	2,830	156,523	228,105	39,833	267,938
Dividend paid in respect of the previous years (Note 5)	-	-	-	-	-	-	-	-	-	(6,420)	(6,420)	-	(6,420)
Issue of ordinary shares upon exercise of share options	350	12,282	-	-	-	-	(1,922)	-	-	-	10,707	-	10,710
Issue of ordinary shares upon bonus issue	10,700	(10,700)	-	-	-	-	-	-	-	-	-	-	-
Share issue expenses	-	(59)	-	-	-	-	-	-	-	-	(59)	-	(59)
Minority interest arising from formation of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	8	8
Minority interest arising from increase in share capital of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	2,813	2,813
Employee share based compensation (Note 14)	-	-	-	-	-	-	1,353	-	-	-	1,353	-	1,353
Transfer to reserves	-	-	-	4,235	-	-	-	-	-	(4,235)	-	-	-
Dividend declared and payable to minority interests	-	-	-	-	-	-	-	-	-	-	-	(10,808)	(10,808)
Translation difference	-	-	-	-	-	-	-	12,997	-	-	12,997	3,952	16,949
Profit for the Period	-	-	-	-	-	-	-	-	-	48,255	48,255	9,850	58,105
At 31 March 2008	16,050	54,132	2,000	4,782	57	(320)	515	20,772	2,830	194,123	294,941	45,648	340,589
(Unaudited)													
At 1 April 2008	16,050	54,132	2,000	4,782	57	(320)	515	20,772	2,830	194,123	294,941	45,648	340,589
Final dividend paid in respect of the previous years (Note 5)	-	-	-	-	-	-	-	-	-	(16,050)	(16,050)	-	(16,050)
Transfer to reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange translation	-	-	-	-	-	-	-	4,189	-	-	4,189	1,494	5,683
Employee share based compensation (Note 14)	-	-	-	-	-	-	1,285	-	-	-	1,285	-	1,285
Profit for the Period	-	-	-	-	-	-	-	-	-	23,384	23,384	6,779	30,163
At 30 September 2008	16,050	54,132	2,000	4,782	57	(320)	1,800	24,961	2,830	201,457	307,749	53,921	361,670

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.

The notes on 17 to 31 form part of this interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	37,894	19,757
Cash outflow from investing activities	(14,530)	(57,139)
Net cash inflow/(outflow) from financing activities	21,135	28,506
Net increase/(decrease) in cash and cash equivalents	44,499	(8,876)
Cash and cash equivalents at 1 April	20,774	27,192
Cash and cash equivalents at 30 September	65,273	18,316

The notes on page 17 to 31 form part of this interim financial statements

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

1 Basis of preparation and significant accounting policies

The unaudited condensed consolidated accounts for the six months ended 30 September 2008 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and complied 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 except for certain financial assets and financial liabilities measured at amortised cost.

The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2008.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in the annual financial statements for the year ended 31 March 2008.

In the current interim period, the Group has applied, for the first time, a number of new interpretations issued by HKICPA, which are effective for the Group's financial year beginning on 1 April 2008. The adoption of these new interpretations had no material effect on how the results and financial position of the Group for the current and/or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new/revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group, except that the effects of the application of HKFRS 3 (Revised) and HKAS 27 (Revised) are not reasonably estimate.

The interim financial statements have been authorised for issue by the Board on 5 December 2008. 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 2008

	Pharmaceutical Products		Trading Pharmaceutical Products		Health Care Products		Pharmaceutical Bulk Materials		Consolidated	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue										
Anti-infectious	54,853	45,459	–	–	–	–	–	–	54,853	45,459
Gastro-intestinal	42,545	14,936	23,371	21,762	–	–	–	–	65,916	36,698
Musculo-skeletal	41,597	31,295	12,968	10,893	–	–	–	–	54,565	42,188
Cerebro-cardiovascular	1,626	908	–	–	–	–	–	–	1,626	908
Others	7,097	2,428	–	–	1,608	4,436	716	19	9,421	6,883
	147,718	95,026	36,339	32,655	1,608	4,436	716	19	186,381	132,136
Segment results	25,381	23,222	9,932	6,844	370	(1,370)	(3,169)	(2,581)	32,514	26,115
Less: Unallocated (expenses)/income									1,697	1,063
									34,211	27,178
Profit from operations										
– Share-based payment expenses									(1,285)	(837)
– Finance costs									(2,172)	(2,484)
– Taxation									(520)	(3,674)
– Minority interests									(6,779)	(5,168)
– Share of results of associates									(71)	–
Profit attributable to shareholders									23,384	15,015

3 Profit from ordinary activities before taxation

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

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
	(Unaudited)	(Unaudited)
Cost of inventories*	105,712	69,988
Staff costs	7,341	6,958
Retirement costs	1,446	785
Depreciation	4,751	4,831
Operating lease charges in respect of premises	1,550	1,256
Interest on bank advances wholly repayable within five years	2,173	2,279
Research and development costs	1,971	512

- * Cost of inventories includes \$5,114,385 (2007: \$3,846,168) relating to staff cost, depreciation expenses, operating lease charges and retirement costs, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

4 Taxation

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
	(Unaudited)	(Unaudited)
Current tax		
Provision for Hong Kong Profits Tax	757	649
Provision for PRC income tax	3,156	2,923
PRC tax refund	(3,448)	—
	465	3,572
Deferred tax		
Current Period	55	102
	520	3,674

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the Period.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in PRC at 24% (2007: 33%).

The subsidiary Kunming Jida Pharmaceutical Company Limited ("KJP"), located in Kunming, Yunnan, PRC is entitled to preferential PRC EIT rate of 15% (2007: 15%) in accordance to the continuous implementation of the Western Development tax preferential policies pursuant to the New PRC Income Tax Law which was approved on 16 March 2007.

Pursuant to notices issued by the local tax bureau, PRC income tax of HK\$3,448,000 (2007: nil) was refunded to KJP in relation to purchase of equipment made in PRC under tax preferential policies in accordance with the relevant tax rules and regulations.

5 Dividends

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
	(Unaudited)	(Unaudited)
Dividend approved and paid during the period	16,050	6,420

Pursuant to the resolutions passed at the shareholders' meeting on 26 August 2008, a final dividend of \$16,050,000 (2007: \$6,420,000) payable to the shareholders of the Company was declared and approved in respect of the year ended 31 March 2008.

The Board does not recommend the payment of an interim dividend for the Period (2007: \$Nil).

6 Earnings per share

The calculation of basic earnings per share is based on the Group's profits attributable to shareholders of HK\$23,384,000 (2007: HK\$15,015,000) and on the weighted average of 1,605,000,000 (2007: 1,534,344,261) ordinary shares in issue during the period.

The diluted earnings per share is based on the profit attributable to shareholders of HK\$23,384,000 (2007: HK\$15,015,000) and the weighted average of 1,618,717,625 (2007: 1,534,344,261) ordinary shares in issue during the period, after adjusting the effect of all dilutive potential share under the Company's share option scheme.

7 Property, plant and equipment

	At	At
	30 September	31 March
	2008	2008
	\$'000	\$'000
	(Unaudited)	(Audited)
Opening net book amount		
At 1 April 2008/1 April 2007	168,875	159,291
Additions	1,815	8,791
Disposals	(930)	(6,821)
Depreciation	(4,751)	(11,937)
Transfer from construction in progress	—	4,004
Transfer to construction in progress	(47)	—
Translation difference	5,979	15,547
	<hr/>	<hr/>
Net book amount		
At 30 September 2008/		
31 March 2008	170,941	168,875
	<hr/>	<hr/>

As at 30 September 2008, certain assets (buildings) of the Group with an aggregate carrying value of approximately HK\$90,959,000 (31 March 2008: HK\$90,128,000) were pledged to secure loans and borrowing facilities utilized by the Group.

8 Land use right

	At 30 September 2008 \$'000 (Unaudited)	At 31 March 2008 \$'000 (Audited)
Opening net carry amount		
At 1 April 2008/1 April 2007	23,461	27,613
Disposal	—	(5,700)
Annual charges of prepaid operating lease payment	(326)	(773)
Translation difference	659	2,321
Net carrying amount		
At 30 September 2008/ 31 March 2008	23,794	23,461

Land use rights with carrying amount of HK\$23,794,000 (31 March 2008: HK\$23,461,000) was pledged to secure bank loans and borrowing facilities utilized by the Group.

9 Accounts and bills receivable

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

	At 30 September 2008 \$'000 (Unaudited)	At 31 March 2008 \$'000 (Audited)
Within 3 months	56,757	74,385
Aged over 3 months but less than 6 months	10,099	21,765
Aged over 6 months	18,378	5,222
	85,234	101,372
Bills receivable	8,248	101
	93,482	101,473

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

10 Cash and cash equivalents

	At 30 September 2008 \$'000 (Unaudited)	At 31 March 2008 \$'000 (Audited)
Cash at bank and in hand	65,273	20,774

11 Accounts and bills payable

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

	At	At
	30 September	31 March
	2008	2008
	\$'000	\$'000
	(Unaudited)	(Audited)
Accounts payable		
– Within 3 months	13,485	26,464
– Over 3 months but within 6 months	868	298
– Over 6 months	327	258
Bills payable	21,079	27,985
	35,759	55,005

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

12 Share capital

	At 30 September 2008		At 31 March 2008	
	No. of shares	Amount	No. of shares	Amount
		\$'000		\$'000
		(Unaudited)		(Audited)
Authorised:				
Ordinary shares of \$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:				
	1,605,000,000	16,050	1,605,000,000	16,050

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

13 Share-based employee compensation

(i) Share option scheme

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

	As at 1 April 2008	Granted during the period	Exercised during the period	As at 30 September 2008	Date of grant	Exercise period	Exercise price per share
Directors							
Lau Kin Tung	-	15,000,000	-	15,000,000	14/4/2008	14/4/2008 to 13/4/2013	HK\$0.180
Employees							
In aggregate	5,000,000	-	-	5,000,000	01/11/2007	01/11/2008 to 31/10/2013	HK\$0.300
Total	<u>5,000,000</u>	<u>15,000,000</u>	<u>-</u>	<u>20,000,000</u>			

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

(ii) Valuation of options

On 14 April 2008, the Company granted 15,000,000 share options to the directors of the Company. The options granted during the period had a fair value of HK\$1,285,000 and were determined using the Binomial model. Significant inputs into the calculation were as follows:

Share price	HK\$0.179
Exercise price	HK\$0.180
Expected volatility	57%
Expected option life	5 Years
Weighted average annual risk free interest rate	1.989%
Expected dividend yield	4.36%
Suboptimal exercise factor	3.2

The expected volatility was determined with reference to the historical volatility of the Company's share prices. It is assumed that the volatility is constant throughout the option life. 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.

14 Commitments

(a) Commitments under operating leases

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

	At 30 September 2008 \$'000 (Unaudited)	At 31 March 2008 \$'000 (Audited)
Within one year	2,942	877
After one year but within five years	2,502	67
	5,444	944

(b) Capital commitments

The Group had capital commitments outstanding as at 30 September 2008 not provided for in the interim financial statements as follows:

	At 30 September 2008 \$'000 (Unaudited)	At 31 March 2008 \$'000 (Audited)
Contracted for		
– acquisition of property, plant and equipment	5,121	2,907
– acquisition of technical know-how	3,881	3,023
	9,002	5,930
Authorised but not contracted for		
– acquisition of property, plant and equipment	–	–
	9,002	5,930

15 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:

		Six months ended	
		30 September	
	<i>Notes</i>	2008	2007
		\$'000	\$'000
		(Unaudited)	(Unaudited)
Sales of goods:			
– Yunnan Pharmaceutical and industrial Corporation Limited and its subsidiaries (“Yunnan Pharm Group”)	<i>(i)</i>	6,457	5,336
– Yunnan Jiwa Pharm Logistics Company Limited (“YJPL”)	<i>(ii)</i>	9,543	5,942
Rentals paid:			
– Mr. Lau Yau Bor	<i>(iii)</i>	298	288
– Jiwa Investment Limited	<i>(iv)</i>	910	828

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) 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

	At 30 September 2008 \$'000 (Unaudited)	At 31 March 2008 \$'000 (Audited)
Yunnan Pharm Group	15,061	14,419
YJPL	2,204	5,232
	17,265	19,651

16 Post balance sheet events

(a) Sale of Longchang

On 8 October 2008, Jiwa Development Co. Ltd. ("Jiwa Development"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Pang Yue Jun ("Mr. Pang"), a third party independent to the Company and connected person of the Group. Pursuant to which Mr. Pang agreed to purchase and Jiwa Development agreed to sale the 70% of the issued share capital of Shangxi Province Fanshi County Longchang Industrial Co. Ltd. ("Longchang") for a cash consideration of RMB27,000,000. Upon completion of the acquisition, Longchang will no longer be recognized as available for sale investment for the Group and it will cease to be a 70% owned subsidiary of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The management of the Group considered the acquisition of Longchang in 2007 as capital investment opportunity for the Group. Due to recent economic downturn and difficult operating environment in the mining industry of the PRC, the management recognized focusing on the Group's core pharmaceutical business would be more profitable.

(b) Acquisition of Jiwa P&C

On 28 October 2008, Jiwa Development entered into a sale and purchase agreement with Mr. Lau Yau Bor and Mr. Lau Kin Tung ("Vendors"), pursuant to which the Vendors agreed to sell and Jiwa Development agreed to purchase the entire 1,000 ordinary shares of Jiwa Pharm & Chemicals Limited ("Jiwa P&C") at a consideration HK\$9,659,000. Jiwa Development will not and shall not purchase or assume any of the Assets (other than the PRC Interests), the Liabilities, and the PRC Receivables. Assets, PRC Interests, Liabilities and PRC Receivable shall have the meanings as defined in the announcement dated 29 October 2008.

Mr. Lau Yau Bor is a substantial shareholder, chairman and executive director of the Company, he owned 60% equity interest of Jiwa P&C. Mr. Lau Kin Tung is a vice-chairman and executive director of the Company, he owned 40% equity interest of Jiwa P&C, he is also the son of Mr. Lau Yau Bor. Since the vendors are directors of the Company, therefore the acquisition of Jiwa P&C constitute connected transaction of the Company under the Listing Rule.

Jiwa P&C is mainly engaged in marketing and distribution of pharmaceuticals in the PRC, it has a well established distribution network in the PRC for the sale of specialized drugs, the management of the Company considered the acquisition of Jiwa P&C would enhance the existing distribution network of the Group and bring synergy to the Group by merging the two marketing system of its own specialized areas.

17 Approval of the interim financial statements

The interim financial statements were approved by the Board on 5 December 2008.

OTHER INFORMATION

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2008, the Group had a total of approximately 598 employees (31 March 2008: approximately 574 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 2008.

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 13 to the interim financial statements.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests in Shares

As at 30 September 2008, 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 (held as beneficial owner) <i>(Note 1)</i>	Family interests (interest of spouse)	Interest in controlled corporation	Total interests	% of total issued Shares
Lau Yau Bor	97,878,000	119,106,000 <i>(Note 2)</i>	840,000,000 <i>(Note 4)</i>	1,056,984,000	65.86%
Lau Kin Tung	28,650,000	–	105,000,000 <i>(Note 5)</i>	133,650,000	8.33%
Chan Hing Ming	44,106,000	937,878,000 <i>(Note 3)</i>	75,000,000 <i>(Note 6)</i>	1,056,984,000	65.86%

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, 44,106,000 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 note 13 to the interim financial statements.

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 in shares

At 30 September 2008, so far as is known to the Directors, the following persons (other than the Directors) had an interest or short position in the shares and underlying shares of the Company which would fall to be

disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Interests in issued Shares

Name of substantial shareholders	Capacity	Total Interests	Percentage of total issued Shares
LAUs Holdings Co. Ltd.	Beneficial owner	840,000,000 (Note 1)	52.34
WHYS Holding Co. Ltd.	Beneficial owner	105,000,000 (Note 2)	6.54

Notes:

1. LAUs Holdings Co. Ltd., a private company incorporated in BVI, is wholly owned by Lau Yau Bor. Such corporate interests are also disclosed in the sub-section under "Directors' and Chief Executives' Interests in Shares".
2. WHYS Holding Co. Ltd., a private company incorporated in BVI, is wholly owned by Lau Kin Tung. Such corporate interests are also disclosed in the sub-section under "Directors' and Chief Executives' Interests in Shares".

Save as disclosed above, no person, other than the Directors and chief executive of the Company, had as at 30 September 2008 registered an interest or short position in the shares or underlying shares of the Company that was required to be disclosed pursuant to 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 2008.

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 2008.

APPRECIATION

Thanks to the support, commitment and contribution of our entire management and staff, the Group's businesses remained prosperous during the Period. On behalf of the Board, I would like to take this opportunity to express my deepest gratitude to them.

By order of the Board

Lau Kin Tung

Vice Chairman and Chief Executive Officer

Hong Kong, 5 December 2008