JIWA BIO-PHARM HOLDINGS LIMITED
積華生物醫藥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2327)

Annual Report **2010**

*for identification only

CONTENT

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)

AUTHORISED REPRESENTATIVES

Mr. Lau Yau Bor
Mr. Lau Kin Tung

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 REGISTERED UNDER PART XI OF THE COMPANY ORDINANCE

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

AUDITORS

Grant Thornton

Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Nanyang Commercial Bank Ltd.
Standard Chartered Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Bank 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

INVESTOR RELATIONS

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

FINANCIAL HIGHLIGHT

	2010 *HK$*	2009 *HK$*	Increase
Turnover	**636,482,000**	472,089,000	34.8%
Gross profit	**280,409,000**	208,204,000	34.7%
Operating profit	**96,846,000**	73,707,000	31.4%
Profit for the year attributable to owners of the Company	**64,582,000**	51,522,000	25.3%
Basic earnings per share (HK cents)	**4.02**	3.21	25.2%
Dividend per share (HK cents)	**1.3**	1.0	30%

RESULTS

On behalf of the board of directors (the "Board") of Jiwa Bio-Pharm Holdings Limited ("Jiwa" or the "Company"), I am pleased to present the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2010 (the "Year" or the "Period").

Last year, the pharmaceutical industry in China demonstrated a prosperous development amidst the recovery of the macroeconomy. From the industrial aspect, the expansion fueled by the new health care reform is going to lead the pharmaceutical market to grow for a relatively long period. To prepare for this "golden decade", the Group continuously explored new positioning and opportunities, and adopted several timely strategic adjustments in the last few years, the effect of which has now begun to take off, bringing a new record high profit to the Group.

During the Year, the turnover of the Group amounted to HK$636,482,000, representing an increase of 34.8% over the last year; profit attributable to shareholders increased by 25.3% over the last year to HK$64,582,000, marking a new high since our listing.

DIVIDENDS

The Board of the Company has resolved to recommend a final dividend of HK1.3 cents per share for the year ended 31 March 2010. This proposed final dividend, subject to approval by shareholders of the Company at the annual general meeting to be held on Monday, 30 August 2010, will be payable on Friday, 24 September 2010 to the shareholders on the Register of Members on 30 August 2010.

BUILDING CORE COMPETITIVENESS

In 2009, both the People Republic of China ("PRC") and the global markets gradually recovered from the financial crisis, while the pharmaceutical market of China experienced a new wave of growth driven by national hygiene and welfare policies. Aiming to build a harmonious society, the government officially put forward a new medical reform. Among its various measures, the formulation of an essential drugs system and the roadmap for medical and health level development in rural areas will significantly expand the pharmaceutical market of China. At the same time, the newly implemented "Provisions for Drug Registration", "Chinese Pharmacopoeia" (2010 edition), and other new policies in preparation, namely the "Regulations on Centralized Drugs Purchasing for Medical Institutions", "Drug Price Control Measures" and "GMP Provisions" (2010 edition), have further raised the entry barrier to pharmaceutical market, accelerating the process of the market polarization. As industrial concentration increases, enhancement of the core competitiveness of a company will have a decisive impact on its development direction and position in the industry.

The Jiwa Group upholds the development philosophy of "Capturing the opportunities and surpassing with innovation" that is, to adopt innovative marketing and product strategies and fully capture the opportunities arising from the new medical reform, with the goal to surpass itself and its competitors and become a leading pharmaceutical company in the PRC.

Consolidating foundation and creating advantages through economies of scale

With the implementation of the first batch of new medical reform policies, pharmaceutical companies will concentrate its effort to enhance and promote their products, in order to enjoy the "economies of scale" on production, tendering and preferential policies. In August 2008, China officially introduced the national essential drugs system. According to statistics, national participants of new-type rural cooperative medical insurance system for the PRC in 2009 amounted to 0.8 billion, with urban workers and residents under medical coverage amounting to 0.3 billion, meaning that over 1.2 billion PRC citizens will be enjoying primary medical care by the end of 2009.

According to the "National Essential Drugs List (Part of Distributed for Primary Medical and Health Organization Use)" ("EDL") issued by the government in August 2009, the Group has five products being included in the EDL and is striving for another eight products to be included in the EDL of Yunnan province. It is expected that these products will greatly boost the sales of the Group and expand its scale.

Establish reputation and optimize profit through key products

Currently, the Group has 33 products available on the market, 28 of which are included in the "Catalogue of Drugs for Basic National Medical Insurance, Injury Insurance and Maternity Insurance" ("Medical Insurance Catalogue"), with another two included in the Provincial-level Medical Insurance Catalogue. Our marketing department has carried out detailed research on every medical reform policy proposed in 2009. Based on the competitive advantages of the products, we have selected seven products (five self-produced brands and two distributed brands) for comprehensive marketing campaigns in their respective specialized drug markets. The five self-produced brands are reduced glutathione for injection (Song Taisi), edaravone injection (Jiwa Youmin), triamcinolone acetonide injection (Transton), tamsulosin hydrochloride sustained-release tablet (Jida Bente) and risedronate sodium tablet (Jiwa Gusong), and the two distributed brands are reduced glutathione for injection (Gluthion) and diacerein capsules (Artrodar).

All the above seven key products have the capacity to achieve sales in terms of thousands of million dollars. The objective of the Group is to capture the leading position in their respective therapeutic areas and build a solid foundation for the launching of other new products in the future.

Sustain competitive advantage and expand market scope through new products

The Group planned to introduce 19 new products in the next five years. These products can be strategically classified into two categories: (i) development of new specification and dosage form for existing products, with an aim to continuously enhance the competitiveness of key products and increase their market share; and (ii) new products, including first generic products, with an aim to improve the gross profit margin of its entire product portfolio.

CATALYSTS FOR LEAPING GROWTH

Key research and development projects

In view of the promising industrial prospect, the Group determined to achieve a "leaping" growth by injecting "innovative" ideas to its operation. A development project for key medicine bulk materials is being carried out. With groundbreaking progress, the product is about to enter pilot-scale experimental stage and will be introduced to market in 2012. This project, representing a milestone to the Group, is expected to bring very substantial profit returns to the Group and greatly strengthen its status in the pharmaceutical market in China, expanding its business overseas and leading the Group on the road to become a multi-national Pharmaceutical enterprise.

Apart from this development project, the Group is also carrying out one development project for cephalosporins intermediaries and two for new category I medicine, which involve innovative technology and are regarded as the catalysts for the Group's leaping growth.

Merger and Acquisition Projects

Under the drive of the new medical reform, pharmaceutical market of China will see a great deal of merger and acquisition activities. Industrial concentration will be inevitable, with enterprise polarization further exacerbated and greatly accelerated. The management of the Group is full of confidence and is identifying potential merger and acquisition opportunities to speed up its expansion of market share in China and overseas.

PROSPECTS

In recent years, the Group has actively rebuilt its core competitiveness and explored keys to significant corporate profit growth. With a number of projects about to mature and join the "golden decade" of pharmaceutical market of China, the Group will strive to make another leap from the new record high performance this year, and create greater return for its shareholders.

Lastly, on behalf of the Board, I would like to express my deepest gratitude to all statf of the Group for their excellent contribution and thank our shareholder and business partners for their strong support to the Group.

Lau Yau Bor
Chairman
Hong Kong, 16 July 2010

BUSINESS REVIEW

During the Period, the finished drugs ("Finished Drugs") produced and sold by the Group accounted for 67.6% of the gross operating profit. Healthcare products and imported European pharmaceutical products ("Trading Pharmaceutical Products and Health Care Products") sold by the Group accounted for 28.6% of the gross operating profit. Pharmaceutical products distributed by the Group ("Distributed Products") accounted for 3.8% of the gross operating profit. The loss from pharmaceutical bulk materials business narrowed to HK$5,428,000.

Finished Drugs

During the Period, the total sales of Finished Drugs amounted to HK$396,281,000, up 20.7% as compared to the previous year, with segment results amounting to HK$69,110,000, increasing by 43.7% over the last year. Our products comprise mainly of anti-infectious, musculo-skeletal, gastro-intestinal and cerebro-cardiovascular categories. As the suppliers ran into stock shortage with the supply of raw materials for Song Taisi being suspended during the Period, the growth of sales for this finished drug product fell below target, with a slight growth of 9.9%.

The total sales of the 5 key products below amounted to HK$197,966,000, accounting for 60.3% of the total sales of Finished Drugs. Based on the facts that these products maintained competitive advantages and their respective markets displayed a high-growth trend, the Group formulated detailed marketing strategies specific to the market situations of each pharmaceutical product, aiming to penetrate its products into every provincial, municipal and regional medical institutions in the PRC, and countries in ASEAN and South America.

1. Reduced glutathione for injection (Song Taisi). This drug is mainly used for treatment of liver diseases and is included in the National Medical Insurance Catalogue. In recent years, the medication usage of reduced glutathione has extended to areas such as adjuvant therapy for tumor radiotherapy and chemotherapy, as well as severe burns. According to market statistics, drug market for this kind of medicine has grown by 30% in recent years. Being the only intravenous injection sodium salt product in single individual packaging in the PRC, Song Taisi has established good brand reputation and distinguishing competitive advantage since its launching to market in 2004.

2. Triamcinolone acetonide injection (Transton). This drug is mainly used for treatment of rheumatoid arthristis and is included in the National Medical Insurance Catalogue. As triamcinolone acetonide is mostly used by primary medical institutions, the rapid expansion of primary medical service sector may lead to a further boost in the sales of the drug. The quality of Transton is comparable to imported products and occupied a leading position in the PRC market with excellent branding.

3. Edaravone injection (Jiwa Youmin). This drug is mainly used for treatment of acute ischemic stroke and is recently included in the National Medical Insurance Catalogue in 2009, with a great potential for growth. As the bulk materials of Jiwa Youmin is developed and supplied by the Group, it has a gross profit margin of over 80%. Among the 18 provinces in which we have bid for the tender, 17 have accepted our tenders and the drug is expected to become one of our major sources of profit contributions in the future. The Group will adopt a channel marketing strategy for expansion in depth, while our clinical team will strengthen its ability on development and sales promotion, and create new specification to reinforce our sustainable competitiveness.

4. Tamsulosin hydrochloride sustained-release tablet (Jida Bente). This drug is mainly used for treatment of hyperplasia of the prostate. Jida Bente is a unique dosage form in the PRC and possesses significant tender advantage. As its bulk materials are developed and supplied by the Group, it has a gross profit margin over 80%, bringing significant profit contributions to the Group.

5. Risedronate sodium tablet (Jiwa Gusong). This drug is a new type of ibandronate sodium product and a new category II medicine of the PRC. Risedronate sodium is mainly used for treatment of osteoporosis and is well-received in the international market. As the bulk materials of Jiwa Gusong is developed and supplied by the Group, it has a gross profit margin of over 80%. The product is recently included in the National Medical Insurance Catalogue in 2009, with great potential for growth and profit contribution.

Trading Pharmaceutical Products and Health Care Products

During the Period, the total sales of Trading Pharmaceutical Products and Health Care Products amounted to HK$163,494,000, representing a year-on-year increase of 3.3%; with segment results amounting to HK$29,267,000, decreasing by 7.9% over the last year. The European pharmaceutical products distributed by the Group as an agent are mainly reduced glutathione for injection (Gluthion) and diacerein capsules (Artrodar). The sales of Gluthion amounted to HK$122,358,000, representing a decrease of 17.9% as compared with the last year, which was mainly due to the impact caused by the stock shortage of suppliers. During the Period, the rise of exchange rate for Euro led to an increase of cost and a corresponding decrease of gross profit. The sales of Artrodar increased from HK$5,787,000 of last year to HK$15,028,000.

As the exchange rate for Euro goes down and the raw materials supply from suppliers becomes stable, the result of this segment is likely to return to the growth track. In addition, the Group is also actively identifying pharmaceutical products with potential, with the aim to expand its agency business in the PRC.

Distribution Business

During the Period, the total annual sales from distribution of products amounted to HK$183,882,000, while the sales of the second half year of the last corresponding period was HK$102,131,000 (this segment business was acquired in October 2008), with segment results amounting to HK$3,897,000. The products for distribution are mainly European pharmaceutical products distributed by the Group as agent and its self-produced pharmaceutical products. In terms of therapeutic areas, the distribution business focuses on promoting specialized drugs targeted for musculo-skeletal and digestive and liver diseases therapeutic systems. These market systems and the marketing departments of finished drug companies under the Group exercised market specialization in terms of therapeutic areas, paralleled by organic combination to achieve synergistic effects. In line with the development of pharmaceutical market in the PRC toward rural markets, the Group plans to increase its workforce by 1,000 employees in the entire market systems in the coming three years, primarily covering markets of county or lower level, in order to achieve complete penetration.

Pharmaceutical Bulk Materials

During the Period, the loss from Pharmaceutical Bulk Materials business decreased from HK$9,993,000 of the last corresponding period to HK$5,428,000. The relocation of Citalopram's production workshop completed as scheduled and the GMP Certificate is scheduled to be obtained in August 2010. Meanwhile, we are actively preparing for the FDA Certificate for US, and export to US market is hopefully expected to commence in 2012. Besides, the GMP Certificate for Cefpirome was obtained and we are now focusing on improving the Sterile Cefpirome Sulphate. With the effort of our research unit, our production cost of Cefpirome Sulphate will become the most competitive in China. The anticipated launch of Cefpirome on market in September 2010 will enhance the timely accomplishment of the sales target for Jiangsu Jiwa Rintech within the year.

FINANCIAL REVIEW

Liquidity

As at 31 March 2010, cash and cash equivalents of the Group totalled approximately HK$34,803,000 (2009: approximately HK$42,420,000), of which approximately 1.5% are in Hong Kong dollars, 59.6% in RMB, 5.4% in US dollars, 33.3% in Euro and 0.2% in Macau Pataca. The decrease in cash and cash equivalents is due to the repayment of bank borrowings.

As at 31 March 2010, the Group had aggregate banking facilities of approximately HK$287,316,000 (2009: approximately HK$224,439,000) of which approximately HK$153,806,000 was utilized (2009: approximately HK$175,692,000) as to approximately HK$83,813,000 in long term bank loans, as to approximately HK$47,086,000 in short term bank loans, as to the balance of approximately HK$22,907,000 in letter of credit issued by the relevant banks to independent third parties. The decrease in total bank borrowings is mainly due to the stringent control of cashflow management. The Group's aggregate banking facilities of approximately HK$287,316,000 include approximately HK$51,724,000 equivalents in RMB denominated banking facilities. The utilized banking facilities of approximately HK$153,807,000 includes approximately HK$21,005,000 equivalent in RMB denominated bank borrowings.

Interest rate risk

The major portion of bank borrowings was mainly nominated in HK dollar and US dollar in order to minimize currency risk. As at 31 March 2010, the gearing ratio was approximately 18% (2009: approximately 23%), calculated based on the Group's total bank borrowings of approximately HK$130,899,000 (2009: approximately HK$151,871,000) over the Group's total assets of approximately HK$737,786,000 (2009: approximately HK$651,503,000). The decrease in gearing ratio is mainly due to stringent control of cashflow management.

Foreign currency risk

The Group is subject to foreign currency risk as its certain bills payable arising from import of purchase from European countries are denominated in EURO dollars. Management had offset certain account receivable denominated in EURO dollars to minimize the foreign currency risk.

Credit risk

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

Capital Commitments

Capital commitments outstanding at 31 March 2010 not contracted for in the financial statements were as follows:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Contracted for		
— acquisition of technical know-how	**4,732**	2,972
— acquisition of property, plant and equipment	**2,648**	7,192
	7,380	10,164

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

The Company had no capital commitment as at 31 March 2010 (2009: Nil).

Charge on Group assets

As at 31 March 2010, bank loans amounting to approximately HK$100,316,000 (2009: HK$146,028,000) were secured by certain assets of the Group having a net book value of approximately HK$128,838,000 (2009: HK$147,295,000).

Contingent Liabilities

As at 31 March 2010, 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.

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 19 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2010 and the state of the Group's affairs as at that date are set out in the financial statements on pages 28 to 95.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 31 to the financial statements.

RESERVES

Profits attributable to shareholders of the Company, before dividends, of approximately HK$64,582,000 (2009: approximately HK$51,522,000) have been transferred to reserves. Details of the movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and the consolidated statement of changes in equity respectively.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment of the Group for the year ended 31 March 2010 are set out in note 16 to the financial statements.

EMPLOYMENT REMUNERATION POLICY

As at 31 March 2010, the Group had approximately 1,064 employees. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant options to eligible employees under its share option scheme.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

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

Non-Executive Directors

Mr. Chiu Wai Piu
Mr. Choy Ping Sheung
Mr. Fung Tze Wa

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

DIRECTOR'S SERVICE CONTRACTS

Mr. Lau Yau Bor, Mr. Lau Kin Tung and Madam Chan Hing Ming have entered into service contracts with the Company respectively for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa have been appointed as an independent non-executive director since 1 September 2008, 1 September 2003 and 1 September 2004, respectively, their service contracts had been renewed for successive terms of one year since their appointment.

Other than as disclosed above, none of the directors has entered into a service contract with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected Transactions", no contract of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

The directors and chief executive of the Company who held office as at 31 March 2010 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules:

Interests in issued Shares

Name of Director	Personal interests	Family interests	Corporate interests	Total number of Shares held	% of total issued Shares
Lau Yau Bor	97,878,000 *(Note 1)*	115,752,000 *(Note 2)*	840,000,000 *(Note 4)*	1,053,630,000	65.44%
Lau Kin Tung	552,000 *(Note 1)*	—	105,000,000 *(Note 5)*	105,552,000	6.56%
Chan Hing Ming	40,752,000 *(Note 1)*	937,878,000 *(Note 3)*	75,000,000 *(Note 6)*	1,053,630,000	65.44%

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, 40,752,000 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.

Interests in underlying Shares

The directors and chief executives 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 executives of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as other wise notified to the Company pursuant to the Model Code.

SHARE OPTION SCHEME

The Share Option Scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any suppliers, consultants or advisers who have provided services to any company in the Group to take up options to subscribe for Shares. The Share Option Scheme shall be valid and effective for a period of ten years ending on 24 September 2013, after which no further options will be granted. The exercise price of option is the highest of the nominal value of the ordinary share of HK$0.01 each in the share capital of the Company ("Shares"), the closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant.

The total number of securities available for issue under the Share Option Scheme is 160,500,000, which represented 10% of the issued share capital of the Company as at 26 August 2008, the date of approval of the refreshment of the maximum number of the Shares, which may be issued upon the exercise of all the share options to be granted under the Share Option Scheme and such other schemes of the Company which initially shall not in aggregate exceed 10% of the Shares in issue at the date of the approval of the Share Option Scheme by the Shareholders and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of refreshed limit by shareholders of the Company.

Details of the share options granted by the Company pursuant to the Scheme and the options outstanding as at 31 March 2010 were as follows:

	Date of grant	Exercisable period	Balance at 01/04/09	Granted during the year	Exercised during the year	Cancelled during the year	Balance at 31/03/10	Exercise price	Exercise date
			Number of options	*Number of options*	*Number of options*	*Number of options*	*Number of options*	*HK$*	
Executive director									
Lau Kin Tung	14/04/08	14/04/08 to 13/04/13	15,000,000	—	—	—	15,000,000	0.18	—
Consultant/Employee									
In aggregate	01/11/07	01/11/08 to 31/10/13	5,000,000	—	5,000,000	—	0	0.30	14/12/09
			20,000,000	—	5,000,000	—	15,000,000		

The options were granted for a consideration of HK$1 under the Share Option Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one Share.

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

As at 31 March 2010, the Company had been notified by the following person (other than the directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as at 31 March 2010 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.

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	52.17
WHYS Holding Co. Ltd.	Beneficial owner	105,000,000	6.52

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements also fell under the definition of "connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions

(1) Tenancy Agreements

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

(i) The Albany Tenancy Agreement

Date of agreement	:	1 September 2008
Landlord	:	Jiwa Investment
Tenant	:	Jiwa International
Premises	:	Apartment A1 (also known as Apartment C), 21st Floor and Car Park No. 21 on 4th Floor (Carpark Level 5), The Albany, No. 1 Albany Road, Hong Kong with a total gross floor area of approximately 201 square metres
Term	:	two years and four months commencing from 1 May 2008 to 31 August 2010 (both days inclusive)
Annual rental	:	HK$1,176,000 (HK$98,000 per month)
Payment method	:	Payable monthly in advance on the first day of each calendar month by cash

(ii) *The Robinson Tenancy Agreement*

Date of agreement	:	1 September 2008
Landlord	:	Mr. Lau
Tenant	:	Jiwa International
Premises	:	Apartment A on 22nd Floor and Car Parking Space No. 7 on 4th Floor of Regal Crest, No. 9 Robinson Road, Hong Kong with a gross floor area of approximately 215 square metres.
Term	:	two years commencing from 1 September 2008 to 31 August 2010 (both days inclusive)
Annual rental	:	HK$696,000 (HK$58,000 per month)
Payment method	:	Payable monthly in advance on the first day of each calendar month by cash

(iii) *The Lippo Tenancy Agreement*

Date of agreement	:	1 September 2008
Landlord	:	Jiwa Investment
Tenant	:	Jiwa International
Premises	:	Office 4, 29th Floor, Tower One, Lippo Centre, No.89 Queensway, Hong Kong with a total gross floor area of approximately 150 square metres
Term	:	two years commencing from 1 September 2008 to 31 August 2010 (both days inclusive)
Annual rental	:	HK$780,000 (HK$65,000 per month)
Payment method	:	Payable monthly in advance on the first day of each calendar month by cash

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

(a) HK$2,534,000 for the year ending 31 March 2009;

(b) HK$2,652,000 for the year ending 31 March 2010; and

(c) HK$1,105,000 for the year ending 31 March 2011.

(2) Sale and Purchase Agreement

On 1 April 2009, Kunming Jida Pharmaceutical Company Limited ("Kunming Jida", a 70% owned subsidiary of the Company) and Yunnan Pharmaceutical and Industrial Corporation Limited ("Yunnan Pharmaceutical", a substantial shareholder of Kunming Jida) had entered into a master sale and purchase agreement.

Yunnan Pharmaceuitcal is currently one of the major distributor principally engaged in the distribution of pharmaceutical products in Yunnan Province, the PRC. Kunming Jida has sold to Yunnan Pharmaceutical certain pharmaceutical products in accordance with the master sale and purchase agreement dated 1 Novemeber 2006, the agreement was renewed on 1 April 2009. The Directors are of the view that it is beneficial to the Group to enter into the transactions as the Group can leverage on the distribution network of Yunnan Pharmaceutical to penetrate the PRC market without incurring material capital investment.

The cap amount for the transactions entered into between Kunming Jida and Yunnan Pharmaceutical in respect for each of the years ended 31 March 2010, 31 March 2011 and 31 March 2012 will not be more than HK$9.8 million.

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

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

(b) on normal commercial terms; or, if there is no available comparison, on terms that are no less favorable than terms available to or from independent third parties; and

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

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

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

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

FIXED ASSETS

During the year, the Group acquired properties for approximately HK$8,289,000 and machineries, furniture, fixtures and equipment for approximately HK$4,349,000 for the Group's factories. Details of these acquisitions and other movements in fixed assets are set out in note 16 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2010 are set out in note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchase**
The largest customer	20%	
Five largest customers in aggregate	45%	
The largest supplier		21%
Five largest suppliers in aggregate		45%

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 96 of the annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund scheme for its employees in Hong Kong and participates in a defined contribution retirement scheme organized by the PRC municipal government for its PRC employees. Particulars of these retirement schemes are set out in note 2.21 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ANNUAL GENERAL MEETING

The 2010 Annual General Meeting of the Company will be held at 9:00 a.m. on 30 August 2010 (Monday) at Conference Room-22/F United Centre, 95 Queensway, Hong Kong and a notice of annual general meeting will be published and dispatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 August 2010 (Wednesday) to 30 August 2010 (Monday), both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 August 2010 (Tuesday).

On behalf of the Board of Directors
Lau Kin Tung
Vice Chairman and Chief Executive Officer

Hong Kong, 16 July 2010

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

CORPORATE GOVERNANCE PRACTICES

The Board of Directors is of the opinion that during the financial year ended 31 March 2010, the Company had applied the CG Code as set out in the Listing Rules.

DIRECTOR'S SECURITIES TRANSACTIONS

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

On specific enquiries made, all directors have confirmed that, for the year ended 31 March 2010, they have complied with the required standard set out in the Model Code and the Own Code.

BOARD OF DIRECTORS

Composition of the Board

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

During the Period, the Board consists of three executive directors and three independent non-executive directors with a variety of experience in management, accounting and finance; their brief biographical particulars and their relationship among the Board are set out on pages 23 to 25 respectively of this annual report.

Four regular board meetings were held for the year ended 31 March 2010 and the attendance was as follows:

Board of Directors	**Attendance**
Executive Directors	
Mr. Lau Yau Bor *(the Chairman)*	4/4
Mr. Lau Kin Tung *(the Vice Chairman and Chief Executive Officer)*	4/4
Madam Chan Hing Ming	4/4
Non-Executive Directors	
Mr. Chiu Wai Piu	4/4
Mr. Choy Ping Sheung	4/4
Mr. Fung Tze Wa	4/4

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

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

The Operation of the Board of Directors

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

During the year under review, the members of Remuneration Committee are Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa, all independent non-executive directors. Mr. Choy Ping Sheung is the chairman of the remuneration committee.

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

Committee Member	**Meeting Attended/Held**
Mr. Choy Ping Sheung	1/1
Mr. Chiu Wai Piu	1/1
Mr. Fung Tze Wa	1/1

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

Details on the emolument payable to the Directors and the Company's share option scheme are disclosed in note 15 to the financial statements.

NOMINATION OF DIRECTORS

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

During the Period, the members of Nomination Committee are Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa, all Independent Non-executive Directors. Mr. Chiu Wai Piu is the chairman of the nomination committee.

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

Committee Member	**Meeting Attended/Held**
Mr. Chiu Wai Piu	1/1
Mr. Choy Ping Sheung	1/1
Mr. Fung Tze Wa	1/1

AUDITOR'S REMUNERATION

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

Nature of services	*HK$'000*
Audit services	700

AUDIT COMMITTEE

The Audit Committee members comprise of Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa, all independent non-executive directors. Mr. Fung Tze Wa is the Chairman of the Audit Committee who has appropriate professional qualifications and accounting expertise. No member of this committee is a member of the former or external auditors of the Company.

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

During the year, the Audit Committee had held 2 meetings. Attendance of each individual member was as follows:

Committee Member	Meeting Attended/Held
Mr. Fung Tze Wa	2/2
Mr. Chiu Wai Piu	2/2
Mr. Choy Ping Sheung	2/2

RESPONSIBILITY ON FINANCIAL REPORTING

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

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

The reporting responsibilities of Grant Thornton, the Company's auditors, are stated in the Independent Auditors' Report on pages 26 to 27 of the Annual Report.

INTERNAL CONTROL

The Board had conducted a review of the effectiveness of the system of internal control of the Group which covered all material controls, including financial, operational and compliance controls and risk management functions.

EXECUTIVE DIRECTORS

Dr. Lau Yau Bor, aged 72, is the Chairman, Executive Director and founder of the Group. Dr. Lau is responsible for the business development direction and corporate strategy of the Group. Dr. Lau has over 28 years of experience in corporate management.

Dr. Lau is also the Standing Board Member of China Federation of Chinese Entrepreneurs, a Council Member of China Enterprise Directors Association, the Vice Chairman of Yunnan Overseas Chinese Chamber of Commerce and Entrepreneurs, Founding Member of China Overseas Chinese Entrepreneurs Association, Deputy Chairman of Yunnan Association of Enterprises with Foreign Investment, Consultant of Yunnan Federation of Returned Overseas Chinese, Consultant of Yunnan Association for Promotion of Overseas Economic Cooperation, Council Member of Yunnan Overseas Friendship Association, Council Member of Overseas Exchange Association of Yunnan and Honorary Professor of Kunming Medical University. Dr. Lau is an Honorary Doctor of Management of Lincoln University and a Fellow of the Canadian Chartered Institute of Business Administration.

Mr. Lau Kin Tung, aged 40, is the Vice-Chairman, Chief Executive Officer and Executive Director of the Group. Mr. Lau joined the Group in June 1992. In 1993, Mr. Lau assisted in setting up Kunming Jida. Since 1993, Mr. Lau was involved in the establishment and management of Kunming Jida Pharmaceutical Company Limited (KJP), Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP"), Yunnan Jiwa Biotech Limited ("YJB") and Y.N. Jiwa Pharm Logistics Company Limited ("YJPL"). He has been responsible for the international trading, research and development, sales and marketing of the Group. Mr. Lau holds a Bachelor of Business Administration Degree from the University of Hong Kong (1992), a Master of Business Administration Degree from the University of Manchester (2002), and a Bachelor of Science Degree in Pharmaceutical Studies from the University of Sunderland (2003). Mr. Lau is the son of Mr. Lau Yau Bor, the Chairman of the Group and Madam Chan Hing Ming, a Director.

Madam Chan Hing Ming, aged 69, is the Executive Director and one of the founders of the Group. Madam Chan assisted in founding the Group and has been responsible for the international trading, marketing and financial management of the Group. Madam Chan has over 26 years of experience in corporate management. Madam Chan is the wife of Mr. Lau Yau Bor, the Chairman of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Wai Piu, aged 63, is the Independent Non-executive Director of the Group. Mr. Chiu is an experienced journalist with over 40 years' experience in journalism. He has been a reporter, editor, main news assignment editor, local news assignment editor, assistant editor-in-chief and editorial writer in newspapers and a senior research officer in "One Country Two Systems Research Institute". Currently, Mr. Chiu is the assistant editor-in-chief of "Wen Wei Po" in Hong Kong. Mr. Chiu has been the founding treasurer and the second-session chairman of the "Hong Kong Federation of Journalists". In 2008, he was elected as the vice secretary-general and treasurer in the new session of re-election of committee members of the "Hong Kong Federation of Journalists". He is also an independent non-executive director of Lo's Enviro-Pro Holdings Limited, the shares of which are listed on the Stock Exchange of Hong Kong.

Mr. Choy Ping Sheung, aged 62, is the Independent Non-executive Director of the Group. Mr. Choy had held senior management positions in Nanyang Commercial Bank and the China & South Sea Bank (Hong Kong Branch). Mr. Choy obtained a Higher Certificate in Business Studies (Banking) from the Hong Kong Polytechnic in 1986.

Mr. Fung Tze Wa, aged 53, is the Independent Non-executive Director of the Group. Mr. Fung is a certified public accountant and a director of an accounting firm in Hong Kong. Mr. Fung has more than 25 years of experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a Master Degree in Professional Accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. Since April 2004, he has also been appointed as the independent non-executive director of China Haidian Holdings Limited and New Capital International Investment Limited, the shares of which are listed on the Stock Exchange of Hong Kong.

SENIOR MANAGEMENT

Mr. Chu Kim Ho, aged 47, is the Financial Controllor and Company Secretary of the Group. Mr. Chu joined the Group in September 2006 and is currently responsible for the financial and accounting functions of the Group. Mr. Chu has over 23 years of experience in auditing, treasury, financial accounting and corporate finance advisory. Mr. Chu is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Chu holds a Bachelor Degree in Economics and Business Administration from the University of Hong Kong.

Ms. Feng Pu Chun, aged 37, is the Director of the R&D Department of KJP. She joined the Group in September 2001, and is in charge of the R&D of new products and governmental issues of the Group. Ms. Feng obtained a Master Degree in Business Administration from Beijing University of Posts and Telecommunications in 2004 and a Bachelor Degree in Medicine from Hebei Medical University in 1996. She has 14 years of experience in the R&D of new medicine and has engaged in management for 9 years. Ms. Feng is also a member of China Price Association.

Ms. Huang Jing, aged 37, is the Senior Manager of the Finance Department of KJP. She joined the Group in 2007. Ms. Huang holds a double qualification in chemical engineering and computer-based accounting, and obtained a Bachelor Degree in Engineering in 1993. Ms. Huang has 17 years of working experience. She had worked in large-scale international enterprises, and received outstanding management awards for several times. Ms. Huang has the professional titles of Assistant Engineer and Accountant, and holds the Certified Senior Accountant Certificate. She is a member of the Chinese Institute of Certified Public Accountants and the Institute of Internal Auditors, an international association.

Mr. Li Hong Xiang, aged 57, is the Deputy General Manager of KJP. Mr. Li joined the Group in January 1994 and is currently in charge of the production and GMP management functions of the Group. Mr. Li is a Senior Engineer. He has over 25 years of experience in the pharmaceutical industry. Mr. Li completed the professional programme in chemical engineering at Yunnan Radio & TV University in 1983 and the advanced programme in business administration at the Business Administration Studies Centre of the Renmin University of China in 2001.

Mr. Lin Yun Sheng, aged 38, is the Marketing Director of YJPL. He joined the Group in 2000. Mr. Lin has over 16 years of experience in marketing and management in the pharmaceutical industry. Mr. Lin holds an Executive Master Degree in Business Administration from South China University of Technology.

Ms. Liu Chun Xia, aged 48, is the Quality Director of KJP. Ms. Liu joined the Group in March 1997 and is currently in charge of the Quality Assurance Department of the Group. She has 13 years of experience in pharmaceutical inspection and 12 years of experience in quality control of pharmaceutical enterprises. Ms. Liu had worked for the National Institute for the Control of Pharmaceutical and Biological Products of the People's Republic of China. Ms. Liu is a Licensed Pharmacist and a Senior Licensed Manager and has received several awards from government authorities in the PRC, including the State Scientific Advancement Award Grade II and the Second Prize in Technological Advancement in Public Health and Medicine by the Ministry of Health of the PRC. Ms. Liu obtained a Bachelor of Science Degree from Yunnan University in 1983.

Ms. Luo Dong Mei, aged 41, is the Executive Assistant to Chairman and Chief Operating Director of KJP. Ms. Luo joined KJP in 1994. She holds a Bachelor of Science Degree in Engineering and a Master Degree in Business Administration. She has 19 years of experience in pharmaceutical enterprises, and is responsible for the production, quality control, sales, purchase and administration of pharmaceutical enterprises.

Mr. Ma Ze Wen, aged 41, is the Deputy General Manager of YJPL. Mr. Ma joined the Group in 2001. He practiced medicine for 6 years and has over 13 years of working experience in the pharmaceutical industry. Mr. Ma holds a Bachelor Degree in Clinical Medicine from Shanghai Jiao Tong University and a Master Degree in Business Administration from Donghua University in Shanghai.

Mr. Shek Man Fai, aged 35, is the Accounting Manager of the Group. Mr. Shek joined the Group in November 2006, and is currently responsible for the accounting matters of the Group. Mr. Shek has over 16 years of experience in financial accounting. He is a member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Shek holds a Bachelor Degree in Accountancy from the University of Lincoln and a Master Degree in Accountancy from the National University of Ireland.

Mr. Wang Chang Wen, aged 42, is the Deputy General Manager of JJRP. Mr. Wang joined the Group in July 2004. He was the Senior Manager of the Engineering Department of KJP. He graduated from East China Institute of Chemical Technology, Shanghai in 1989, with a Bachelor Degree in Engineering and the title of Medical Engineer. Mr. Wang has over 20 years' experience in the instrument and engineering management of pharmaceutical enterprises.

Ms. Xu Xin Fang, aged 49, is the Senior Manager of the Production Department of KJP. She has over 23 years of experience in the pharmaceutical industry. Ms. Xu joined the Group in 1994 and is currently in charge of the production division of the Group. Ms. Xu holds a Bachelor of Science Degree from Shenyang Pharmaceutical University.

Mr. Yu Qi, aged 44, is the Marketing Director of KJP. He joined the Group in 2001, and has over 17 years of experience in the pharmaceutical industry. Mr. Yu holds a Bachelor Degree and a Master Degree in Medicine from the Second Military Medical University. He also holds a Master Degree in Business Administration from Shanghai Jiao Tong University.

Grant Thornton
均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Jiwa Bio-Pharm Holdings Limited ("the Company") set out on pages 28 to 95, which comprise the consolidated and company statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

16 July 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
Revenue	5	636,482	472,089
Cost of sales		(356,073)	(263,885)
Gross profit		280,409	208,204
Other income	7	11,380	7,854
Selling expenses		(128,443)	(78,079)
Administrative expenses		(65,329)	(59,720)
Other operating expenses		(1,171)	(4,552)
Operating profit		96,846	73,707
Finance costs	8	(3,811)	(4,545)
Share of results of associates	20	(101)	(143)
Profit before income tax	9	92,934	69,019
Income tax expense	10	(11,348)	(5,682)
Profit for the year		81,586	63,337
Other comprehensive income, including reclassification adjustment			
Exchange gain on translation of financial statements of foreign operations		6	7,614
Other comprehensive income for the year, including reclassification adjustments and net of tax		6	7,614
Total comprehensive income for the year		81,592	70,951
Profit for the year attributable to:			
Owners of the Company	11	64,582	51,522
Minority interests		17,004	11,815
		81,586	63,337
Total comprehensive income attributable to:			
Owners of the Company		64,588	57,622
Minority interests		17,004	13,329
		81,592	70,951
Earnings per share for profit attributable to the owners of the Company during the year			
Basic	13	4.02 cents	3.21 cents
Diluted	13	4.00 cents	N/A

	Note	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	237,747	241,629
Land use rights	17	33,618	29,059
Construction in progress	18	25,149	9,950
Interests in associates	20	19,738	19,839
Goodwill	21	9,066	9,066
Intangible assets	22	5,720	5,231
Other receivables	25	7,955	15,291
Deferred tax assets	30	3,737	3,930
		342,730	333,995
Current assets			
Inventories	23	107,871	71,662
Accounts and bills receivable	24	157,359	135,766
Land use rights	17	1,057	935
Deposits, prepayments and other receivables	25	76,765	46,781
Amounts due from related company	35	16,983	13,544
Tax recoverable		218	—
Pledged bank deposits	26	—	6,400
Cash and cash equivalents	26	34,803	42,420
		395,056	317,508
Current liabilities			
Bank loans	27	47,086	36,343
Accounts and bills payable	28	119,344	76,379
Accrued expenses and other payables	29	13,744	17,610
Tax payable		5,277	3,764
		185,451	134,096
Net current assets		209,605	183,412
Total assets less current liabilities		552,335	517,407
Non-current liabilities			
Bank loans	27	83,813	115,528
Deferred tax liabilities	30	6,022	6,421
		89,835	121,949
Net assets		462,500	395,458

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
EQUITY			
Share capital	31	16,100	16,050
Reserves	32	370,419	320,431
Equity attributable to Company's owners		386,519	336,481
Minority interests		75,981	58,977
Total equity		462,500	395,458

Lau Yau Bor
Director

Lau Kin Tung
Director

	Note	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	19	82,380	82,380
Current assets			
Amounts due from subsidiaries	19	97,540	86,650
Pledged bank deposits		—	6,400
Cash and cash equivalents		166	70
		97,706	93,120
Current liabilities			
Amount due to a subsidiary	19	—	2,077
Accrued expenses and other payables		3	3
		3	2,080
Net current assets		97,703	91,040
Net assets/Total assets less current liabilities		180,083	173,420
EQUITY			
Share capital	31	16,100	16,050
Reserves	32	163,983	157,370
Total equity		180,083	173,420

Lau Yau Bor
Director

Lau Kin Tung
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Profit before income tax		92,934	69,019
Adjustments for:			
Interest income		(289)	(259)
Interest expense		4,618	5,722
Depreciation of property, plant and equipment		14,559	13,010
Share-based employee compensation		—	1,285
Amortisation of land use rights		969	760
Amortisation of intangible assets		598	1,199
Gain on disposal of property, plant and equipment		(2,293)	—
Loss on disposal of property, plant and equipment		233	54
Gain on disposal of land use rights	*38(a)*	(5,650)	—
Gain on disposal of available-for-sale financial assets		—	(2,641)
Provision for impairment of obsolete inventories		1,877	705
Reversal of inventory written off		(705)	—
Share of result of associates		101	143
Operating profit before changes in working capital		106,952	88,997
(Increase)/Decrease in inventories		(37,381)	4,527
Increase in accounts and bills receivable		(21,593)	(635)
Increase in deposits, prepayments and other receivables		(22,648)	(13,891)
(Increase)/Decrease in amounts due from related company		(3,439)	6,107
Increase/(Decrease) in accounts and bills payable		42,965	(31,153)
Decrease in accrued expense and other payables		(3,866)	(18,237)
Net cash inflow from operations		60,990	35,715
Hong Kong profits tax paid		(3,278)	(4,765)
Taxation outside Hong Kong paid		(8,965)	(4,396)
Taxation outside Hong Kong refunded		1,984	3,448
Net cash generated from operating activities		50,731	30,002
Cash flows from investing activities			
Payment for purchase of property, plant and equipment		(12,638)	(4,872)
Proceeds from disposal of property, plant and equipment		9,091	—
Proceeds from disposal of available-for-sale financial assets	*38(b)*	—	6,194
Payment for construction in progress		(20,269)	(11,526)
Payment for acquisition of intangible assets		(1,087)	(5,817)
Payment for investment in associates		—	(7,000)
Acquisition of subsidiaries	*37*	—	(7,349)
Decrease/(Increase) in pledged bank deposits		6,400	(6,400)
Interest received		289	259
Net cash used in investing activities		(18,214)	(36,511)

	Note	2010 HK$'000	2009 HK$'000
Cash flows from financing activities			
Proceeds from bank loans		36,622	109,854
Repayment of bank loans		(57,440)	(61,464)
Proceeds from issue of shares upon exercise of share options	31	1,500	—
Interest paid		(4,618)	(5,722)
Dividends paid to Company's owners		(16,050)	(16,050)
Net cash (used in)/generated from financing activities		(39,986)	26,618
Net (decrease)/increase in cash and cash equivalents		(7,469)	20,109
Translation differences		(148)	1,537
Cash and cash equivalents at the beginning of the year		42,420	20,774
Cash and cash equivalents at the end of the year		34,803	42,420

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

	Equity attributable to owners of the Company												Minority interests	Total equity
	Share capital	Share premium *(note 32(v))*	Contributed surplus *(note 32(i))*	General reserve fund *(note 32(ii))*	Enterprise expansion fund *(note 32(ii))*	Translation reserve	Revaluation adjustment *(note 32(iii))*	Capital reserve *(note 32(iv))*	Share option reserve	Proposed final dividend	Retained profits	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	16,050	54,132	2,000	4,782	57	20,772	(320)	2,830	515	16,050	178,073	294,941	45,648	340,589
Dividend paid in respect of the previous year *(note 12)*	–	–	–	–	–	–	–	–	–	(16,050)	–	(16,050)	–	(16,050)
Issue of share options to directors *(notes 14 and 33)*	–	–	–	–	–	–	–	–	1,285	–	–	1,285	–	1,285
Transactions with owners	–	–	–	–	–	–	–	–	1,285	(16,050)	–	(14,765)	–	(14,765)
Profit for the year	–	–	–	–	–	–	–	–	–	–	51,522	51,522	11,815	63,337
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	6,100	–	–	–	–	–	6,100	1,514	7,614
Total comprehensive income for the year	–	–	–	–	–	6,100	–	–	–	–	51,522	57,622	13,329	70,951
Share of post-acquisition losses from an associate which became a subsidiary in the year	–	–	–	–	–	–	–	–	–	–	(1,317)	(1,317)	–	(1,317)
Proposed final dividend *(note 12)*	–	–	–	–	–	–	–	–	–	16,050	(16,050)	–	–	–
Transfer to reserve	–	–	–	3,103	–	–	–	–	–	–	(3,103)	–	–	–
At 31 March 2009	16,050	54,132	2,000	7,885	57	26,872	(320)	2,830	1,800	16,050	209,125	336,481	58,977	395,458
At 1 April 2009	16,050	54,132	2,000	7,885	57	26,872	(320)	2,830	1,800	16,050	209,125	336,481	58,977	395,458
Dividend paid in respect of the previous year *(note 12)*	–	–	–	–	–	–	–	–	–	(16,050)	–	(16,050)	–	(16,050)
Issue of shares upon exercise of share option *(note 33)*	50	1,965	–	–	–	–	–	–	(515)	–	–	1,500	–	1,500
Transaction with owners	50	1,965	–	–	–	–	–	–	(515)	(16,050)	–	(14,550)	–	(14,550)
Profit for the year	–	–	–	–	–	–	–	–	–	–	64,582	64,582	17,004	81,586
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	6	–	–	–	–	–	6	–	6
Total comprehensive income for the year	–	–	–	–	–	6	–	–	–	–	64,582	64,588	17,004	81,592
Proposed final dividend *(note 12)*	–	–	–	–	–	–	–	–	–	20,930	(20,930)	–	–	–
Transfer to reserve	–	–	–	4,837	–	–	–	–	–	–	(4,837)	–		–
At 31 March 2010	**16,100**	**56,097**	**2,000**	**12,722**	**57**	**26,878**	**(320)**	**2,830**	**1,285**	**20,930**	**247,940**	**386,519**	**75,981**	**462,500**

1. GENERAL INFORMATION

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

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

The financial statements for the year ended 31 March 2010 were approved for issue by the board of directors on 16 July 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 28 to 95 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

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

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 2.3) made up to 31 March each year.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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

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

2.3 Subsidiaries

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

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post–acquisition profits are recognised in the Company's profit or loss.

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

2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

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

2.5 Foreign currency translation

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2.6 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Construction in progress is stated at cost less impairment losses. The cost comprises construction costs including direct materials, labour, contractors' fees, interest expenses, overheads and cost of plant and machineries attributable to bringing the production facilities to its present condition.

When the construction or installation is completed, the relevant cost of construction in progress is transferred to the appropriate categories of property, plant and equipment.

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

2.6 Property, plant and equipment *(Continued)*

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

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

The assets' residue values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

2.7 Leasehold land and land use rights

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.15. Amortisation is calculated on a straight line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

2.8 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 2.4.

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.20).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination recognised immediately in profit or loss.

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

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

2.9 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Technical know-how	1-5 years

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.20.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2.10 Financial assets

The Group's accounting policies for financial assets other than investment in subsidiaries and associates are set out below.

The Group classified its financial assets as loans and receivables, including accounts, bills and other receivables, amounts due from related company, amounts due from subsidiaries and cash and cash equivalents.

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

2.10 Financial assets *(Continued)*

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Loans and receivables

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

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

2.10 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised costs

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

2.11 Inventories

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

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

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

2.13 Financial liabilities

The Group's financial liabilities include bank loans, accounts, bills and other payables and accrued expenses. They are included in line items in the statement of financial position as borrowings under current or non-current liabilities, or accounts and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.22).

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

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

Borrowings

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

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

Accounts, bills and other payables

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

2.14 Financial guarantee

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

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

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

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

2.15 Leases

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

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risk and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges as the lessee

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

2.16 Provisions and contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets. They are disclosed along with the Group's contingent liabilities.

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

2.17 Share capital

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

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

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and provision of services, net of rebates and discount. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risk and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividend is recognised when the right to receive payment is established.

2.19 Government grants

Grant from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received or the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants relating to income is presented in gross under "Other income" in the statement of comprehensive income.

2.20 Impairment of non-financial assets

The following assets are subject to impairment testing:

- Goodwill arising on acquisition of a subsidiary;
- Intangible assets;
- Property, plant and equipment;
- Land use rights; and
- The Company's interests in subsidiaries and associates

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

2.20 Impairment of non-financial assets *(Continued)*

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses reognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

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

2.21 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

Defined contribution plan

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employers of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute a certain percentage its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans is limited to the fixed percentage contributions payable.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Share-based employee compensation

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

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

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

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

2.22 Borrowing costs

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

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.23 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited directly to other comprehensive income or directly in equity.

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

2.23 Accounting for income taxes *(Continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

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

(ii) Trading pharmaceutical and health care products — Trading of pharmaceutical and health care products.

(iii) Distributions — Distributions of pharmaceutical products.

(iv) Pharmaceutical bulk materials — Manufacturing and sale of pharmaceutical bulk materials.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

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

2.24 Segment reporting *(Continued)*

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- expenses related to share-based payments
- share of profit or loss of associates accounted for using the equity method
- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but interests in associates. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter. These included deferred tax assets.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include deferred tax liabilities.

No asymmetrical allocations have been applied to reportable segments.

2.25 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment — vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example revaluation of property, plant and equipment. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated statement of financial position at 1 April 2008 and accordingly the third statement of financial position as at 1 April 2008 is not presented.

HKAS 23 (Revised 2007) Borrowing costs

HKAS 23 (Revised 2007) requires borrowing costs incurred for the acquisition, construction or production of any qualifying asset to be capitalised during the period of time that is required to complete and prepare the asset for its intended use. Under the revised standard, borrowing costs related to acquisition, construction or production of any qualifying assets will be capitalised accordingly.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

3. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

HKFRS 2 (Amendments) Share-based payment vesting conditions and cancellation

The HKFRS 2 (Amendments) clarifies that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. These amendments did not have any material impact on the results and financial position for the current and prior periods.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Directors do not expect the standard to have a material effect on the Group's financial statements.

3. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 April 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The Directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.20. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in note 21.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Critical accounting estimates and assumptions *(Continued)*

(ii) Impairment of interests in associates and property, plant and equipment

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

(iii) Impairment and net realisable value of inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowance may be required.

(iv) Impairment on trade and other receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its trade and other receivable balances, customers' credit-worthiness, historical write-off experience and the quality and valuation of the collaterals held. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance, or to exercise their rights on the collaterals and its future results would be affected.

(v) Fair value of share-based employee compensation

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models — which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life — and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Critical judgements in applying the accounting policies

(i) Research and development activities

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new products are continuously monitored by the Company's management.

(ii) Deferred tax assets

As at 31 March 2010, deferred tax assets of HK$3,737,000 (2009: HK$3,930,000) in relation to unused tax losses and other deductible temporary differences have been recognised in the consolidated statement of financial position. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a reversal of the deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. REVENUE

The Group's principal activities are disclosed in note 1 to these financial statements. Turnover of the Group is the revenue from these activities.

6. SEGMENT INFORMATION

The executive directors have identified the Group's four product and service lines as operating segments as further described in note 2.24.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

6. SEGMENT INFORMATION *(Continued)*

	Pharmaceutical products		Trading pharmaceutical and health care products		Distributions		Pharmaceutical bulk materials		Consolidated	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Revenue										
From external customers	328,112	285,705	121,956	82,288	183,882	102,131	2,532	1,965	636,482	472,089
From other segment	68,169	42,727	41,538	75,971	—	—	75	—	109,782	118,698
Reportable segment revenue	396,281	328,432	163,494	158,259	183,882	102,131	2,607	1,965	746,264	590,787
Reportable segment profit/(loss)	69,110	48,093	29,267	31,786	3,897	5,178	(5,428)	(9,993)	96,846	75,064
Bank interest income	163	168	5	70	102	—	19	21	289	259
Depreciation of property, plant and equipment	9,693	9,675	243	495	2,017	995	2,606	1,845	14,559	13,010
Amortisation of intangible assets	598	1,199	—	—	—	—	—	—	598	1,199
Amortisation of land use rights	354	354	35	35	284	108	296	263	969	760
(Gain)/Loss on disposal of land use rights and property, plant and equipment	233	10	—	—	—	—	(7,943)	44	(7,710)	54
Reversal of write down of inventories	—	—	(126)	—	—	—	(579)	—	(705)	—
Provision for impairment of obsolete inventories	—	—	—	126	—	—	1,877	579	1,877	705
Reportable segment assets	330,728	292,167	107,205	91,129	133,123	111,863	118,768	108,088	689,824	603,247
Additions to non-current segment assets during the year	9,583	11,886	275	38	19,465	36,446	16,001	10,218	45,324	58,588
Reportable segment liabilities	142,933	109,770	61,462	56,590	46,860	45,456	18,009	37,808	269,264	249,624

6. SEGMENT INFORMATION *(Continued)*

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2010 *HK$'000*	2009 *HK$'000*
Reportable segment revenues	**746,264**	590,787
Elimination of inter segment revenues	**(109,782)**	(118,698)
Group revenue	**636,482**	472,089
Reportable segment profit	**96,846**	75,064
Unallocated corporate expenses	**—**	(72)
Equity settled share based payments	**—**	(1,285)
Share of net loss in associates	**(101)**	(143)
Finance costs	**(3,811)**	(4,545)
Profit before income tax	**92,934**	69,019
Reportable segment assets	**689,824**	603,247
Deferred tax assets	**3,737**	3,930
Other corporate assets	**24,487**	24,487
Interest in associates	**19,738**	19,839
Group assets	**737,786**	651,503
Reportable segment liabilities	**269,264**	249,624
Deferred tax liabilities	**6,022**	6,421
Group liabilities	**275,286**	256,045

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

6. SEGMENT INFORMATION *(Continued)*

The Group's non-current assets (other than deferred tax assets and financial instruments) are divided into the following geographical areas:

	2010 *HK$'000*	2009 *HK$'000*
Hong Kong (place of domicile)	**26,810**	26,913
Macau	**5**	5
The PRC (excluding Hong Kong and Macau)	**304,223**	287,856
	331,038	314,774

The geographical location of the non-current assets is based on the physical location of the asset.

During the year ended 31 March 2010, two (2009: two) customers with whom transactions of each has exceeded 10% of the Group's revenue. Total revenue from these two (2009: two) customers accounted for 31% (2009: 34%) of the Group's revenue for the year. As at the reporting date, total trade receivables due from these two (2009: two) customers accounted for 54% (2009: 45%) of such balance. The sales to these two customers are included in the segment of pharmaceutical products, trading pharmaceutical and health care products and distribution.

7. OTHER INCOME

	2010 *HK$'000*	2009 *HK$'000*
Consultancy fee income	**—**	120
Exchange gain, net	**49**	3,659
Gain on disposal of property, plant and equipment	**2,293**	—
Gain on disposal of land use rights	**5,650**	—
Gain on disposal of available-for-sale financial assets	**—**	2,641
Government grants *(i)*	**1,550**	547
Interest income	**289**	259
Value-added tax refund	**97**	242
Others	**1,452**	386
	11,380	7,854

Note:

(i) The Group was entitled to receive grants from a provincial government in the PRC for developing high technology products and being one of the famous brand names in the PRC.

8. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest charges on bank loans wholly repayable within five years	4,618	5,722
Less: interest capitalised included in construction in progress *(note 18)*	(807)	(1,177)
	3,811	4,545

The borrowing cost have been capitalised at a rate of 3.25% per annum (2009: 4.75%).

9. PROFIT BEFORE INCOME TAX

	2010 HK$'000	2009 HK$'000
Profit before income tax is arrived at after charging/(crediting):		
Costs of inventories recognised as expense *(i)*	350,024	263,476
— Write-back of provision for inventories *(note 23)*	(705)	—
— Provision for impairment of obsolete inventories	1,877	705
Auditors' remuneration	700	650
Depreciation of property, plant and equipment	14,559	13,010
Loss on disposal of property, plant and equipment	233	54
Amortisation of intangible assets	598	1,199
Amortisation on land use rights	969	760
Operating lease charges in respect of premises	3,662	3,007
Research and development costs *(ii)*	3,397	2,478

Notes:

(i) Cost of inventories includes HK$13,494,000 (2009: HK$10,413,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

(ii) Research and development costs for the year ended 31 March 2009 and 2010 do not include any staff cost.

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year.

Pursuant to the tax law passed by the Tenth National People's Congress on 16 March 2007, the new PRC Enterprise Income Tax ("EIT") rates for domestic and foreign enterprises in China which are currently charging at an EIT rate of 33% are unified at 25% with effect from 1 January 2008. EIT has been provided on the estimated assessable profits of subsidiaries operating in PRC at 25% (2009: 25%).

10. INCOME TAX EXPENSE *(Continued)*

A subsidiary which is located in Kunming, Yunnan, PRC is entitled to preferential PRC EIT rate of 15% (2009: 15%) in accordance to the continuous implementation of the Western Development tax preferential policies pursuant to the New PRC Income Tax Law which was renewed on 31 March 2010.

	2010	2009
	HK$'000	*HK$'000*
Current tax		
— Hong Kong		
Tax for the year	**3,178**	2,667
Over provision in respect of prior years	**(694)**	—
	2,484	2,667
— Outside Hong Kong		
Provision for PRC income tax	**11,054**	7,028
Tax refunded	**(1,984)**	(3,448)
	9,070	3,580
Deferred tax		
Current year *(note 30)*	**(206)**	(565)
Total income tax expense	**11,348**	5,682

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

	2010	2009
	HK$'000	*HK$'000*
Profit before income tax	**92,934**	69,019
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**12,145**	7,790
Tax effect of non-deductible expenses	**1,892**	770
Tax effect of non-taxable revenue	**(989)**	(390)
Tax losses not recognised as deferred tax assets	**996**	2,644
Tax effect of temporary differences not recognised	**(627)**	(765)
Tax effect of tax losses utilised in current year	**(35)**	(128)
Tax refund	**(1,984)**	(3,448)
Others	**644**	(791)
Over provision in prior years	**(694)**	—
Income tax expense	**11,348**	5,682

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of HK$64,582,000 (2009: HK$51,522,000), a profit of HK$21,213,000 (2009: HK$17,593,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2010 *HK$'000*	2009 *HK$'000*
Final dividend proposed after the reporting date of HK$0.013 per share (2009: HK$0.01 per share)	**20,930**	16,050

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of the retained profits for the year ended 31 March 2010.

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

	2010 *HK$'000*	2009 *HK$'000*
Final dividend in respect of the previous financial year of HK$0.01 per share (2009: HK$0.01 per share)	**16,050**	16,050

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$64,582,000 (2009: HK$51,522,000) and the weighted average of 1,606,954,000 (2009: 1,605,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

For the year ended 31 March 2010, the calculation of diluted earnings per share is based on the net profit attributable to owners of the Company for the year of HK$64,582,000 and the weighted average of 1,612,551,000 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 1,606,954,000 ordinary shares in issue during the year plus the weighted average of 5,597,000 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

For the year ended 31 March 2009, diluted earning per share was not presented because the impact of the exercise of the share options was anti-dilutive.

14. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2010 HK$'000	2009 HK$'000
Salaries and wages, other allowances and benefits in kind	41,942	28,837
Consultancy fee	630	840
Rentals for staff and directors	1,872	1,804
Share-based employee compensation *(note 33)*	—	1,285
Contribution to defined contribution plans	4,426	3,477
	48,870	36,243

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Executive directors and independent non-executive directors

	Fees HK$'000	Salaries, housing, other allowances and benefits in kind HK$'000	Share-based employee compensation *(note (iii))* HK$'000	Contribution to retirement plan HK$'000	Total HK$'000
2010					
Executive directors					
Mr. Lau Yau Bor	—	2,428	—	—	2,428
Mr. Lau Kin Tung	—	1,718	—	12	1,730
Madam Chan Hing Ming	—	428	—	—	428
Independent non-executive directors					
Mr. Choy Ping Sheung	80		—	—	80
Mr. Fung Tze Wa	100		—	—	100
Mr. Chiu Wai Piu	100		—	—	100
	280	4,574	—	12	4,866
2009					
Executive directors					
Mr. Lau Yau Bor	—	2,143	—	—	2,143
Mr. Lau Kin Tung	—	1,412	1,285	12	2,709
Madam Chan Hing Ming	—	331	—	—	331
Independent non-executive directors					
Mr. Choy Ping Sheung	80	—	—	—	80
Mr. Fung Tze Wa	100	—	—	—	100
Mr. Seet Lip Chai (ceased to hold office with effect from 1 September 2008)	42	—	—	—	42
Mr. Chiu Wai Piu (appointed on 1 September 2008)	58	—	—	—	58
	280	3,886	1,285	12	5,463

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

(a) Directors' emoluments *(Continued)*

Executive directors and independent non-executive directors *(Continued)*

Notes:

(i) There was no arrangement under which a director waived or agreed to waive any emoluments in respect of the year ended 31 March 2010 (2009: Nil).

(ii) During the year, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

(iii) During the year, no share option was granted (2009: 15,000,000 share options with a fair value of approximately HK$1,285,000 was granted to a director of the Company) to directors, consultants or employees subscribe for ordinary shares of the Company (note 33).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2009: three) individuals during the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries, housing, other allowances and benefits in kind	**1,601**	1,140
Consultancy fee	**—**	840
Discretionary bonus	**103**	178
Share-based employee compensation	**—**	—
Contribution to defined contribution plans	**36**	24
	1,740	2,182

The emoluments of the three (2009: three) individuals fell within the following bands:

	Number of individuals	
	2010	2009
Nil — HK$1,000,000	**3**	3

No emolument was paid by the Group to the directors or any of the five highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

16. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 31 March 2008					
Cost	116,273	3,372	79,553	12,895	212,093
Accumulated depreciation	(15,122)	(2,470)	(18,576)	(7,050)	(43,218)
Net carrying amount	101,151	902	60,977	5,845	168,875
Year ended 31 March 2009					
Opening net carrying amount	101,151	902	60,977	5,845	168,875
Additions	267	1	3,139	1,465	4,872
Acquisition of subsidiaries	28,793	—	—	947	29,740
Disposals	—	—	(54)	—	(54)
Depreciation	(6,677)	(318)	(4,165)	(1,850)	(13,010)
Transfer from construction in progress	19,062	—	23,076	3,391	45,529
Translation differences	3,596	32	1,844	205	5,677
Closing net carrying amount	146,192	617	84,817	10,003	241,629
At 31 March 2009					
Cost	170,339	3,469	108,077	19,786	301,671
Accumulated depreciation	(24,147)	(2,852)	(23,260)	(9,783)	(60,042)
Net carrying amount	146,192	617	84,817	10,003	241,629
Year ended 31 March 2010					
Opening net carrying amount	**146,192**	**617**	**84,817**	**10,003**	**241,629**
Additions	**8,289**	**1,474**	**2,003**	**872**	**12,638**
Disposals	**(6,681)**	**(154)**	**(164)**	**(32)**	**(7,031)**
Depreciation	**(8,028)**	**(193)**	**(4,555)**	**(1,783)**	**(14,559)**
Transfer from construction in progress	**—**	**—**	**4,849**	**221**	**5,070**
Closing net carrying amount	**139,772**	**1,744**	**86,950**	**9,281**	**237,747**
At 31 March 2010					
Cost	**171,376**	**4,194**	**114,019**	**20,561**	**310,150**
Accumulated depreciation	**(31,604)**	**(2,450)**	**(27,069)**	**(11,280)**	**(72,403)**
Net carrying amount	**139,772**	**1,744**	**86,950**	**9,281**	**237,747**

Buildings with carrying amount of HK$99,932,000 (2009: HK$110,901,000) were pledged to secure bank loans (note 27).

17. LAND USE RIGHTS — GROUP

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

	2010 *HK$'000*	2009 *HK$'000*
Hong Kong held on:		
— Leases of over 50 years	**4,287**	4,322
Outside Hong Kong, held on:		
— Leases of between 10 to 50 years	**30,388**	25,672
	34,675	29,994
Less: Current portion included in current assets	**(1,057)**	(935)
	33,618	29,059

During the year ended 31 March 2010, according to the city development plan in 江蘇省江陰市璜土鎮人民政府, the local government has offered the Group's a new piece of land in exchange of the land that the Group possessed with a carrying amount of HK$5,680,000 (RMB4,942,000) at the date of disposal. The newly obtained land use rights was valued by 江陰翔和房地產與土地評估諮詢有限公司, an independent firm of professional valuers at HK$11,330,000 (RMB9,857,000) on the open market basis at the completion date. All land use right certificates have been obtained.

Land use rights with carrying amount of HK$28,906,000 (2009: HK$29,994,000) were pledged to secure bank loans (note 27).

	2010 *HK$'000*	2009 *HK$'000*
Opening net carrying amount	**29,994**	23,461
Acquisition of subsidiaries	**—**	6,633
Acquisition	**11,330**	—
Disposal	**(5,680)**	—
Amortisation of prepaid operating lease payment	**(969)**	(760)
Translation differences	**—**	660
Closing net carrying amount	**34,675**	29,994

18. CONSTRUCTION IN PROGRESS — GROUP

	2010 *HK$'000*	2009 *HK$'000*
At beginning of the year	**9,950**	42,810
Additions	**20,269**	11,526
Transferred to property, plant and equipment	**(5,070)**	(45,529)
Translation differences	**—**	1,143
At end of the year	**25,149**	9,950

Construction in progress at 31 March 2010 primarily represents costs incurred in connection with the Group's new GMP production facility in Kunming and Jiangsu, PRC. Included in additions to construction in progress for the year ended 31 March 2010 is net interest capitalised of HK$807,000 (2009: HK$1,177,000). The interest capitalised are incurred for the borrowings which are specifically used for the construction in progress.

19. INVESTMENT IN SUBSIDIARIES — COMPANY

(a) Investment cost

	2010 *HK$'000*	2009 *HK$'000*
Unlisted shares, at cost	**82,380**	82,380

Particulars of the Company's subsidiaries as at 31 March 2010 are as follows:

Name of company	Place of incorporation and kind of legal entity	Particulars of issued and paid up capital	Percentage of issued capital effectively held by the Company	Principal activities and place of operation
Jiwa Development Co. Ltd. ("JDL")	British Virgin Islands ("BVI"), limited liability company	100,000 ordinary shares of US$0.5 each	100%*	Investment holding, Hong Kong
Jiwa International Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1,000 each	100%	Trading of pharmaceutical products, Hong Kong
Jiwa Pharmaceuticals Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1,000 each	100%	Investment holding, Hong Kong
Tech-Medi Development Limited	Hong Kong, limited liability company	200 ordinary shares of HK$1,000 each	100%	Trading of health care products, Hong Kong
Kunming Jida Pharmaceutical Company Limited ("KJP")	PRC, limited liability company	Reminbi ("RMB") 132,334,000	70%	Manufacturing and trading of pharmaceutical products, PRC

19. INVESTMENT IN SUBSIDIARIES — COMPANY *(Continued)*

(a) Investment cost *(Continued)*

Name of company	Place of incorporation and kind of legal entity	Particulars of issued and paid up capital	Percentage of issued capital effectively held by the Company	Principal activities and place of operation
Jiwa Rintech Holdings Limited	BVI, limited liability company	10 ordinary shares of US$1 each	100%	Investment holding, Hong Kong
Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP")	PRC, limited liability company	RMB58,000,000	100%	Manufacturing and trading of pharmaceutical bulk materials, PRC
Sino-Tech International (Macao Commercial Offshore) Limited	Macau, limited liability company	MOP100,000	100%	Trading of health care products, Macau
Jiwa Pharm & Chemicals Limited ("Jiwa P&C")	Hong Kong, limited liability company	1,000 ordinary shares of HK$1,000 each	100%	Investment holding, Hong Kong
Yunnan Jiwa Pharm Logistics Company Limited ("YJPL")	PRC, limited liability company	USD2,100,000	100%	Trading of pharmaceutical products, PRC
Yunnan Jiwa Biotech Limited ("YJB")	PRC, limited liability company	USD530,000 (2009: USD300,000)	60%	Manufacturing and trading of pharmaceutical products, PRC
Rise Hill Development Limited ("Rise Hill")	BVI, limited liability company	1,000 ordinary shares of USD1 each	60%	Not yet commence business
Base Affirm International Limited ("Base Affirm")	BVI, limited liability company	1,000 ordinary shares of USD1 each	60%	Investment holding, Hong Kong

* Issued capital held directly by the Company

(b) Amounts due from/(to) subsidiaries

The amounts due are unsecured, interest-free and repayable on demand.

The carrying amounts of amounts due from/(to) subsidiaries approximate their fair value.

20. INTERESTS IN ASSOCIATES — GROUP

	2010 HK$'000	2009 HK$'000
At beginning of the year	**19,839**	12,982
Acquisition of additional interests in associates	**—**	7,000
Share of results of associates	**(101)**	(143)
At end of the year	**19,738**	19,839

Particulars of the associates at 31 March 2010 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued and paid up capital	% of issued capital held	Principal activities and place of operation
Leader Forever Limited	BVI, limited liability company	1,000 ordinary shares of USD1 each	40%	Not yet commence business
Vital Element Investments Limited	BVI, limited liability company	1,000 ordinary shares of USD1 each	25%	Not yet commence business

All associates have a reporting date of 31 December 2009. The aggregate amounts of financial information as extracted from the financial statements of the associates are as follows:

	2010 HK$'000	2009 HK$'000
Assets	**71,318**	66,001
Liabilities	**7,061**	1,482
Revenue	**—**	—
Loss for the year	**263**	410

The Group has not incurred any contingent liabilities or other commitments relating to its investments in associates.

21. GOODWILL — GROUP

	2010 *HK$'000*	2009 *HK$'000*
At beginning of the year		
Gross carrying amount	9,066	978
Accumulated impairment	—	—
Net carrying amount	9,066	978
Year ended 31 March		
Opening net carrying amount	9,066	978
Acquisition of subsidiaries *(note 37)*	—	8,054
Translation differences	—	34
Closing net carrying amount	9,066	9,066
At end of the year		
Gross carrying amount	9,066	9,066
Accumulated impairment	—	—
Net carrying amount	9,066	9,066

The carrying amount of goodwill is allocated to the two cash generating units: (i) manufacturing and sale of pharmaceutical products and (ii) distributions of pharmaceutical products. The recoverable amounts for the cash generating units given above were determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of expected cash flows at the growth rate of 15% per annum and discount rate of 13%. The growth rates reflect the long-term average growth rates for the pharmaceutical products and operations of the cash generating units, as determined by the Company's directors.

The Group management's key assumptions have been determined based on past performance and its expectations for the market's development. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash generating unit.

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

22. INTANGIBLE ASSETS — GROUP

	Technical know-how *HK$'000*
Year ended 31 March 2009	
Opening net carrying amount	593
Addition	5,817
Translation differences	20
Amortisation charge	(1,199)
Closing net carrying amount	5,231
At 31 March 2009	
Cost	9,783
Accumulated amortisation	(4,552)
Net carrying amount	5,231
Year ended 31 March 2010	
Opening net carrying amount	**5,231**
Addition	**1,087**
Translation differences	**—**
Amortisation charge	**(598)**
Closing net carrying amount	**5,720**
At 31 March 2010	
Cost	**10,870**
Accumulated amortisation	**(5,150)**
Net carrying amount	**5,720**

The directors consider the useful lives of the above technical know-how are 12 months to 60 months.

23. INVENTORIES — GROUP

	2010 *HK$'000*	2009 *HK$'000*
Raw materials	**40,268**	29,140
Work in progress	**6,148**	8,825
Finished goods	**61,455**	33,697
	107,871	71,662

During the year, the Group reversed a provision of HK$705,000 (2009: nil) being part of inventory written down in previous years that was subsequently not required because the obsolete stock has been used or disposed of. The amount reversed has been included in "Cost of sales" in the consolidated statement of comprehensive income.

At 31 March 2010, all the inventories are stated at cost. None of the inventories are stated at net realisable value (2009: Nil).

24. ACCOUNTS AND BILLS RECEIVABLE — GROUP

	2010 *HK$'000*	2009 *HK$'000*
Accounts receivable	**151,188**	129,037
Bills receivable	**6,171**	6,729
	157,359	135,766

The directors of the Company considered that the fair values of accounts and bills receivable are not materially different from their carrying amounts because these amounts have short maturity periods at their inception.

The Group generally allows a credit period of 30 days to 180 days to its trade customers. Based on invoice date, the ageing analysis of the Group's accounts and bills receivable is as follows:

	2010 *HK$'000*	2009 *HK$'000*
Accounts and bills receivable		
Within 3 months	**113,704**	84,715
Over 3 months but less than 6 months	**31,421**	47,051
Over 6 months	**12,234**	4,000
	157,359	135,766

At each reporting date, the Group first assesses whether objective evidence of impairment exists individually for accounts and bills receivable that are individually significant, and individually or collectively for accounts and bills receivable that are not individually significant. The Group also assesses collectively for accounts and bills receivable with similar credit risk characteristics for impairment. The impaired receivables, if any, are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision is recognised if the amount is determined to be irrecoverable.

The Group did not hold any collateral as security or other credit enhancements over the accounts and bills receivables, whether determined on an individual or collective basis.

24. ACCOUNTS AND BILLS RECEIVABLE — GROUP *(Continued)*

The ageing analysis of the Group's accounts and bills receivable that were past due as at the reporting dates but not impaired, based on due date is as follows:

	2010 *HK$'000*	2009 *HK$'000*
Neither past due nor impaired	**138,270**	114,795
Past due and not impaired		
Not more than one month past due	**16,867**	10,126
Over one month past due	**2,222**	10,845
	19,089	20,971
	157,359	135,766

As at 31 March 2010, accounts and bills receivables of HK$138,270,000 (2009: HK$114,795,000) were neither past due nor impaired. These related to a number of diversified customers from whom there was no recent history of default.

Accounts and bills receivable that were past due but not impaired relate to customers that had a good track record of credit with the Group. Base on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES — GROUP

	2010 *HK$'000*	2009 *HK$'000*
Deposits	**556**	2,591
Other receivables	**70,082**	54,239
Prepayments	**14,082**	5,242
	84,720	62,072
Less: Non-current other receivables included in non-current assets	**(7,955)**	(15,291)
	76,765	46,781

On 8 October 2008, Jiwa Development Limited ("JDL"), a wholly owned subsidiary of the Group, entered into a sale and purchase agreement (the "Agreement") with an independent party. Pursuant to the Agreement the buyer agreed to purchase and JDL agreed to sale the 70% of the issued share capital of Longchang Industrial Co. Ltd.(山西繁峙縣龍昌實業有限責任公司)("Longchang") for a consideration of RMB27,000,000 of which HK$24,487,000 remained outstanding at 31 March 2010. The balance is secured by an equity interest in a PRC company and personal guarantee of the debtor, interest-free and repayable by quarterly instalments commencing on April 2010 and the non-current portion which is repayable after one year amounted to HK$7,955,000.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES — GROUP *(Continued)*

Based on past experiences, the management believes that no impairment provision is necessary in respect of the deposits and other receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The carrying amount of deposits and other receivables is considered a reasonable approximation of fair value.

The carrying amount of other receivables whose terms have been renegotiated, that would otherwise be past due or impaired is HK$24,487,000 (2009: Nil).

26. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS — GROUP

Cash and bank balances include the following components:

	2010 *HK$'000*	2009 *HK$'000*
Cash and bank balance	34,803	48,820
Less: Pledged bank deposits	—	(6,400)
Cash and cash equivalents	34,803	42,420

Pledged bank deposits represent the Group's bank deposits pledged to secure bank loans (note 27).

The directors of the Company considered that the fair value of short-term deposits is not materially different from its carrying amount because of the short maturity periods at its inception.

Included in cash and bank balances of the Group is HK$20,735,000 (2009: HK$32,657,000) of bank balances denominated in RMB placed with banks in PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

27. BANK LOANS — GROUP

	2010 *HK$'000*	2009 *HK$'000*
Secured	100,316	146,028
Unsecured	30,583	5,843
	130,899	151,871

Bank loans amounted to HK$100,316,000 (2009: HK$146,028,000) are secured by the buildings and land use rights of the Group with net book value of HK$99,932,000 (2009: HK$110,901,000) and HK$28,906,000 (2009: HK$29,994,000) respectively. In the year ended 31 March 2009, a bank deposit amounted to HK$6,400,000 was pledged to secure the bank loan as at 31 March 2009. No such deposits were pledged as at 31 March 2010.

27. BANK LOANS — GROUP *(Continued)*

Bank loans amounted to HK$130,899,000 (2009: HK$138,078,000) are guaranteed by the Company.

	2010 *HK$'000*	2009 *HK$'000*
Due within 1 year or on demand	**47,086**	36,343
After 1 year but within 2 years	**37,372**	32,224
After 2 years but within 5 years	**46,441**	83,304
	130,899	151,871
Less: Portion due with 1 year included in current liabilities	**(47,086)**	(36,343)
Non-current portion included under non-current liabilities	**83,813**	115,528

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

	Interest rates	
	2010	2009
Bank loans in HK$ — Floating rate, to be matured in 2011	**HK$ Prime rate (2010: 5%) less 2%**	HK$ Prime rate (2009: 5%) less 2%
Bank loans in HK$ — Floating rate, to be matured in 2012	**—**	Prime rate
Bank loans in HK$ — Floating rate, to be matured in 2009 to 2014	**1.75% above one month HIBOR (2010: 0.13%)**	1.75% above one-month HIBOR (2009: 0.32%)
Bank loans in HK$ — Floating rate, to be matured in 2014	**2% above three-month HIBOR (2010: 0.22%)**	—
Bank loans in HK$ — Floating rate, to be matured in 2015	**1.75% above one-month HIBOR (2010: 0.13%)**	—
Bank loan in RMB — Fixed rate, to be matured in 2010 to 2011	**5.103%**	—
Bank loans in RMB — Fixed rates, to be matured in 2009	**—**	4.425%
Bank loans in US$ — Floating rate, to be matured in 2012	**US$ Prime rate (2010: 3.25%) less 0.75%**	US$ Prime rate (2009: 5%) less 0.75%
Bank loans in US$ — Floating rate, to be matured in 2010 to 2013	**US$ Prime rate (2010: 3.25%)**	US$ Prime rate (2009: 5%)

27. BANK LOANS — GROUP *(Continued)*

In the opinion of the directors, the carrying amounts of the Group's current and non-current bank loans approximate their fair values. The fair values of the non-current bank loans are calculated by discounting their expected future cash flows at market rates.

28. ACCOUNTS AND BILLS PAYABLE — GROUP

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

	2010 *HK$'000*	2009 *HK$'000*
Accounts payable		
Within 3 months	91,912	62,048
Over 3 months but within 6 months	3,212	1,076
Over 6 months	1,313	1,893
	96,437	65,017
Bills payable	22,907	11,362
	119,344	76,379

Accounts and bills payable are non-interest bearing. All of the above balances are expected to be settled within one year.

The fair values of the Group's accounts and bills payable at 31 March 2010 and 2009 approximate to their corresponding carrying amounts due to their short-term maturities.

29. ACCRUED EXPENSES AND OTHER PAYABLES — GROUP

	2010 *HK$'000*	2009 *HK$'000*
Other payables	11,843	13,971
Accruals	1,901	3,639
	13,744	17,610

30. DEFERRED TAX ASSETS/(LIABILITIES) — GROUP

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of land and building *HK$'000*	Internally generated intangible assets *HK$'000*	Others *HK$'000*	Total *HK$'000*
Deferred tax assets/(liabilities) arising from:				
At 1 April 2008	—	3,469	—	3,469
Acquisition of subsidiaries	(6,620)	—	—	(6,620)
(Charged)/Credited to consolidated statement of comprehensive income	199	(109)	475	565
Translation differences	—	95	—	95
At 31 March and 1 April 2009	(6,421)	3,455	475	(2,491)
(Charged)/Credited to consolidated statement of comprehensive income	399	(109)	(84)	206
At 31 March 2010	**(6,022)**	**3,346**	**391**	**(2,285)**

	2010 *HK$'000*	2009 *HK$'000*
Represented by:		
Deferred tax assets	**3,737**	3,930
Deferred tax liabilities	**(6,022)**	(6,421)
	(2,285)	(2,491)

The Group has not recognised deferred tax assets in respect of unused tax losses of HK$20,692,000 (2009: HK$16,785,000) because of the unpredictability of future profit streams. The amount of tax loss that has no expiry date is approximately HK$417,000 (2009: HK$468,000) and the remaining tax loss of approximately of HK$20,275,000 (2009: HK$16,317,000) is subject to expiry period of five years.

Company

At 31 March 2010, the Company did not have any material temporary differences (2009: nil).

31. SHARE CAPITAL

	2010		2009	
	Number of shares	Amount HK$'000	Number of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each				
At end of the year	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At beginning of the year	1,605,000,000	16,050	1,605,000,000	16,050
Employee share option scheme — proceeds from shares issued	5,000,000	50	—	—
At end of the year	1,610,000,000	16,100	1,605,000,000	16,050

On 23 December 2009, the Company issued share capital of HK$50,000 upon the exercise of 5,000,000 share option by a consultant at an exercise price of HK$0.3. Total proceeds received were HK$1,500,000. Details regarding the exercise of share options are summarised in note 33.

32. RESERVES

Group

Please refer to the Consolidated Statement of Changes in Equity for reserves of the Group on page 34.

(i) Contributed surplus

Pursuant to the corporate reorganisation of the Group during 2002 to 2003 (the "Reorganisation"), the Company became the holding company of the Group on 24 September 2003. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provision under section 54 of the Companies Act of Bermuda.

(ii) General reserve fund and Enterprise expansion fund

In accordance with the articles of association and equity joint venture agreement, the subsidiaries in the PRC are required to set up a general reserve fund and an enterprise expansion fund, which are non-distributable. The transfers of these reserves are at discretion of the directors of the respective subsidiaries.

32. RESERVES *(Continued)*

Group *(Continued)*

(iii) Revaluation adjustment

Revaluation adjustment represents the fair value adjustment which is attributed to the 5% increase in the shareholdings of KJP, a subsidiary of the Group. It is the portion of revaluation difference that arose since the original acquisition date that is attributable to the increase in the Group's interest.

(iv) Capital reserve

Upon completion of the capital verification on 25 April 2003, KJP capitalised the enterprise expansion fund of RMB3,000,000 as its registered share capital according to a board resolution dated 18 January 2003. The amount was recognised as capital reserve in the consolidated statement of financial position.

(v) Share premium

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

Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 April 2008	54,132	82,180	515	17,715	154,542
Dividend paid in respect of the previous year *(note 12(b))*	—	—	—	(16,050)	(16,050)
Share-based employee compensation *(note 33)*	—	—	1,285	—	1,285
Profit for the year	—	—	—	17,593	17,593
At 31 March and 1 April 2009	54,132	82,180	1,800	19,258	157,370
Dividend paid in respect of the previous year *(note 12(b))*	—	—	—	(16,050)	(16,050)
Exercise of share option *(note 33)*	1,965	—	(515)	—	1,450
Profit for the year	—	—	—	21,213	21,213
At 31 March 2010	**56,097**	**82,180**	**1,285**	**24,421**	**163,983**

32. RESERVES *(Continued)*

	2010 HK$'000	2009 HK$'000
Retained profits represent:		
Final proposed dividend *(note 12(a))*	**20,930**	16,050
Others	**3,491**	3,208
	24,421	19,258

33. SHARE-BASED EMPLOYEE COMPENSATION

The Company has a share option scheme (the "Scheme") which was adopted on 24 September 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and consultants and advisers to the Group (subject to the eligibility requirements) to take up options to subscribe for shares of the Company representing up to a maximum of 10% of the shares in issue at the date of approval of the Scheme. For the options granted to vest, persons eligible to participate in this program have to remain employed during the vesting period. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vested are exercisable within a period of five years from date of grant. Each option gives the holder the right to subscribe for one share. The grantee shall pay HK$1 to the Company by way of consideration for the grant.

The total number of securities available for issue under the Share Option Scheme is 160,500,000, which represented 10% of the issued share capital of the Company as at 26 August 2008, the date of approval of the refreshment of the maximum number of the Shares, which may be issued upon the exercise of all the share options to be granted under the Share Option Scheme and such other schemes of the Company which initially shall not in aggregate exceed 10% of the Shares in issue at the date of the approval of the Share Option Scheme by the Shareholders and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of refreshed limit by shareholders of the Company.

All share-based employee compensation will be settled in equity.

The share options outstanding as at 31 March 2010 had weighted average exercise prices of HK$0.180 (2009: HK$0.210) and a weighted average remaining contractual life of 3.04 years (2009: 4.18 years).

No employee compensation expense (2009: HK$1,285,000) (note 14) has been included in the consolidated statement of comprehensive income for the year.

At 31 March 2010, total number of shares available for issue under the Scheme was 15,000,000 shares (2009: 20,000,000), representing approximately 0.93% (2009: 1.25%) of the issued share capital of the Company at that date.

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Details of the share options granted by the Company pursuant to the Scheme and the options outstanding as at 31 March 2010 and 2009 were as follows:

2010

	Date of grant	Exercisable period	Balance at 01/04/2009	Granted during the year	Exercised during the year	Cancelled during the year	Balance at 31/03/2010	Exercise price	Exercise date
			Number of options	*Number of options*	*Number of options*	*Number of options*	*Number of options*	*HK$*	
Executive directors									
Mr. Lau Kin Tung	14/04/2008	14/04/2008 to 13/04/2013	15,000,000	–	–	–	15,000,000	0.180	N/A
Consultant/Employee									
In aggregate	01/11/2007	01/11/2008 to 31/10/2013	5,000,000	–	(5,000,000)	–	–	0.300	14 December 2009
At 31 March 2010			20,000,000		(5,000,000)	–	15,000,000		

2009

	Date of grant	Exercisable period	Balance at 01/04/2008	Granted during the year	Exercised during the year	Cancelled during the year	Balance at 31/03/2009	Exercise price	Exercise date
			Number of options	*Number of options*	*Number of options*	*Number of options*	*Number of options*	*HK$*	
Executive directors									
Mr. Lau Kin Tung	14/04/2008	14/04/2008 to 13/04/2013	–	15,000,000	–	–	15,000,000	0.180	N/A
Consultant/Employee									
In aggregate	01/11/2007	01/11/2008 to 31/10/2013	5,000,000	–	–	–	5,000,000	0.300	N/A
At 31 March 2009			5,000,000	15,000,000	–	–	20,000,000		

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share options and weighted average exercise prices for the year ended 31 March 2010 and 2009 are presented as follows:

	2010		2009	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted verage exercise price HK$
Outstanding at 1 April	20,000,000	0.210	5,000,000	0.300
Granted	—	—	15,000,000	0.180
Exercised	(5,000,000)	0.300	—	—
Outstanding at 31 March	15,000,000	0.180	20,000,000	0.210

The weighted average share price at the date of exercise was HK$0.4075 (no exercise in 2009).

Shares options granted on 14 April 2008 were vested immediately.

The fair values of options granted under the Scheme on 14 April 2008, measured at the date of grant, were approximately HK$1,285,000. The following significant assumptions were used to derive the fair values of the share options, using the Binomial Option Pricing Model:

	Share options granted on 14 April 2008
Share price	HK$0.179
Exercise price	HK$0.180
Expected volatility	57%
Expected option life (year)	5
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.

34. COMMITMENTS

(a) Operating lease commitments

At 31 March 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Group

	2010 HK$'000	2009 HK$'000
Within 1 year	1,421	2,867
After 1 year but within 5 years	81	1,118
	1,502	3,985

The Group leases a number of properties under operating leases. The leases run for periods from one year to two years. None of the leases include contingent rentals.

Company

The Company had no operating lease commitment as at 31 March 2010 (2009: Nil).

(b) Capital commitments

At 31 March 2010, outstanding capital commitments not provided for in the financial statements were as follows:

Group

	2010 HK$'000	2009 HK$'000
Contracted for		
— acquisition of technical know-how	4,732	2,972
— acquisition of property, plant and equipment	2,648	7,192
	7,380	10,164

Company

The Company had no capital commitment as at 31 March 2010 (2009: Nil).

35. RELATED PARTY TRANSACTIONS — GROUP

Apart from those transactions and balances with related parties disclosed elsewhere in the financial statements, the following transactions are carried out with related parties during the year.

(a) Related party transactions:

	Note	2010 HK$'000	2009 HK$'000
Recurring:			
Sales of goods:			
— Yunnan Pharmaceutical and Industrial Corporation Limited ("Yunnan Pharmaceutical")	*(i)*	**9,412**	9,320
Rentals paid:			
— Mr. Lau Yau Bor	*(ii)*	**696**	646
— Jiwa Investment Limited	*(iii)*	**1,956**	1,888
Non-recurring:			
— Acquisition of Jiwa P&C from the directors of the Company, Mr. Lau Yau Bor and Mr. Lau Kin Tung	*(iv)*	**—**	9,659

Notes:

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

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

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

(iv) During the year 2009, JDL entered into a sale and purchase agreement with Mr. Lau Yau Bor and Mr. Lau Kin Tung, directors of the Company, to acquire 100% interest of Jiwa P&C at consideration of HK$9,659,000 (note 37).

(b) Amounts due from related company

	2010 HK$'000	2009 HK$'000
Yunnan Pharmaceutical	**16,983**	13,544

The amounts due are unsecured, interest-free and repayable on demand.

Amount of HK$4,945,000 (2009: HK$1,310,000) included in amounts due from related company were trade receivables from the related company. Related company is generally granted with credit terms ranging from 30 days to 180 days and no interest is charged.

35. RELATED PARTY TRANSACTIONS — GROUP *(Continued)*

(b) Amounts due from related company *(Continued)*

The following is an ageing analysis of the trade receivables from related company based on invoice dates at the reporting date:

	2010 *HK$'000*	2009 *HK$'000*
Within 3 months	**4,945**	1,310

Base on past experiences, the management believes that no impairment provision is necessary in respect of trade receivables from the related company as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances. The carrying amounts of the balances are considered a reasonable approximation of fair value.

(c) Compensation of key management personnel

Remuneration of directors and other members of key management during the year are as follows:

	2010 *HK$'000*	2009 *HK$'000*
Salaries, other allowances and benefits in kind	**3,875**	2,891
Consultancy fee	**—**	840
Discretionary bonus	**103**	178
Rentals for directors	**1,872**	1,804
Share-based employee compensation	**—**	1,285
Contribution to defined contribution plans	**48**	36
	5,898	7,034

36. GUARANTEE — COMPANY

At reporting date, the Company had issued the following significant guarantees:

	2010 *HK$'000*	2009 *HK$'000*
Guarantees in respect of:		
Credit facilities granted by banks to certain subsidiaries	**153,804**	149,352

37. BUSINESS COMBINATION

On 28 October 2008, the Group acquired Jiwa P&C, which holds 93% interest of YJPL, at a consideration of HK$9,659,000. Jiwa P&C and YJPL (collectively "Jiwa P&C Group") are principally engaged in the trading of pharmaceutical products in the PRC.

Jiwa P&C Group contributed revenue of HK$102,131,000 and profit for the year of HK$3,728,000 to the Group for the period from 2 October 2008 to 31 March 2009.

Had the combination taken place on 1 April 2008, the revenue and profit for the year 2009 would have been HK$564,968,000 and HK$64,897,000 respectively. These pro forma information were for illustrative purposes only and were not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2008, nor were they intended to be a projection of future results.

Details of the net assets acquired and goodwill were as follows:

	HK$'000
Purchase consideration:	
Consideration paid	9,659
Fair value of net assets acquired	(1,605)
Goodwill *(note 21)*	8,054

The goodwill was attributable to Jiwa P&C Group's established distribution network of pharmaceutical products in the PRC and the significant synergies expected to arise after the acquisition.

37. BUSINESS COMBINATION *(Continued)*

The assets and liabilities from the acquisition were as follows:

	Carrying amount on the acquisition date *HK$'000*	**Fair value on the acquisition date** ***HK$'000***
Property, plant and equipment	8,316	**29,740**
Land use rights	1,576	**6,633**
Inventories	18,932	**18,932**
Account and bill receivable	33,658	**33,658**
Deposits, prepayments and other receivables	306	**306**
Cash and cash equivalents	2,310	**2,310**
Borrowings	(10,345)	**(10,345)**
Accounts and bill payable	(52,527)	**(52,527)**
Accrued expenses and other payables	(20,400)	**(20,400)**
Deferred tax liabilities	—	**(6,620)**
Minority interest	—	**(82)**
Total net assets acquired		**1,605**
Net cash outflow on acquisition:		
Total consideration		**9,659**
Less: Cash and bank balances acquired		**(2,310)**
		7,349

Note:

The acquirees' land and buildings were revalued at the acquisition date on the basis of open market value by 北京百成首信房地產評估有限公司雲南分公司, an independent firm of professional valuer in the PRC. Open market value was estimated based on recent market transactions, which were then adjusted for specific conditions relating to the land and buildings where applicable.

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) During the year ended 31 March 2010, the Group had exchanged a piece of land held with a carrying amount of HK$5,680,000 (RMB4,942,000) with another piece of land with the provincial government, at a fair value of HK$11,330,000 (RMB9,857,000) (note 17). There was no cash payment for the exchange of the land held with the provincial government.

(b) During the year ended 31 March 2009, the Group disposed of its available-for-sale financial assets at a consideration of RMB27,000,000 (equivalent to HK$30,681,000). The consideration was receivable by instalments start from 31 December 2008. There was a gain on disposal of the available-for-sale financial assets which amounted to HK$2,641,000. The Group received cash amounted to HK$ 6,194,000 up to 31 March 2009, after deducting the amount due from Longchang amounted to HK$2,884,000, and the transfer of the investment costs payable amounted to HK$365,000 in accordance with the agreement between the Group and the purchaser. The remaining consideration receivable amounted to HK$24,487,000 was included in deposits, prepayments and other receivables in the Group's statement of financial position for both year ended dates.

39. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The accounting department works under the policies approved by the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Categories of financial assets and liabilities by category

The carrying amounts presented in the statement of financial positions relate to the following categories of financial assets and financial liabilities.

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables:				
Accounts and bills receivable	**157,359**	135,766	**—**	—
Deposits and other receivable	**70,638**	56,830	**—**	—
Amounts due from related company	**16,983**	13,544	**—**	—
Amounts due from subsidiaries	**—**	—	**97,540**	86,650
Pledged bank deposits	**—**	6,400	**—**	6,400
Cash and cash equivalents	**34,803**	42,420	**166**	70
	279,783	254,960	**97,706**	93,120
Financial liabilities				
Financial liabilities measured at amortised costs:				
Bank loans	**130,899**	151,871	**—**	—
Accounts and bills payable	**119,344**	76,379	**—**	—
Amount due to a subsidiary	**—**	—	**—**	2,077
Accrued expenses and other payables	**13,744**	17,610	**3**	3
	263,987	245,860	**3**	2,080

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Foreign currency risk

(i) Transactions in foreign currencies and the Group's risk management policies

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in Renminbi ("RMB"), Euro ("EUR") and United States Dollars ("US$"). These are not the functional currencies of the Group entities to which these transactions relate. As HK$ is pegged to US$, accordingly, the Group does not have any significant exposure to risk resulting from changes in US$ exchange rates. The Group reviews its foreign currency exposure regularly and will consider hedging significant foreign currency exposure should the need arise.

The policies to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.

(ii) Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

	2010			2009		
	RMB HK$'000	***US$ HK$'000***	***EUR HK$'000***	*RMB HK$'000*	*US$ HK$'000*	*EUR HK$'000*
Accounts and bills receivables	**5,501**	**9,866**	**58,517**	—	461	51,587
Other receivables	**24,487**	**—**	**5,727**	24,487	—	3,297
Cash and cash equivalents	**1,840**	**1,863**	**11,588**	—	2,555	4,528
Bank loans	**—**	**(81,994)**	**—**	—	(110,137)	—
Accounts and bills payables	**—**	**(3,082)**	**(25,111)**	—	(5,758)	(16,547)
Other payables	**—**	**(318)**	**—**	—	—	—
Gross exposure arising from recognised financial assets/(liabilities)	**31,828**	**(73,665)**	**50,721**	24,487	(112,879)	42,865

The Company did not have any exposures to foreign currencies at the reporting date. (2009: Nil)

(iii) Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity in regards to a 3% and 2% (2009: 3% and 2%) appreciation in the Group entities' functional currencies against RMB and EUR respectively. These percentages are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Foreign currency risk *(Continued)*

(iii) Sensitivity analysis (Continued)

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	2010		2009	
	RMB	*EUR*	*RMB*	*EUR*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year and retained earnings	(797)	(858)	(613)	(703)

An 3% and 2% depreciation in the Group entities' functional currencies against RMB and EUR respectively would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 March 2009.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

(c) Interest rate risk

(i) Exposures to interest rate risk and the Group's risk management policies

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank borrowings. Borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The exposure to interest rates for the Group's short term bank deposits is considered immaterial.

The Group will review whether bank loans bearing floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank and other borrowings and cash and bank balances of the Group are disclosed in note 27 and 26 respectively. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate exchange exposure should the need arises. The policies to management interest rate risk have been followed by the Group since prior year and are considered to be effective.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity to a possible change in interest rates of +/-1% (2009:+/-1%), with effect from the beginning of the year. The calculations are based on the Group's financial assets and liabilities held at the reporting date. All other variables are held constant.

	2010 Change in interest rate	2010 Increase/(Decrease) profit for the year HK$'000	2010 Increase/(Decrease) retained profits HK$'000	2009 Change in interest rate	2009 Increase/(Decrease) profit for the year HK$'000	2009 Increase/(Decrease) retained profits HK$'000
Borrowings in HK$	+1%	(236)	(236)	+1%	(233)	(233)
	-1%	236	236	-1%	233	233
Borrowings in US$	+1%	(680)	(680)	+1%	(905)	(905)
	-1%	680	680	-1%	905	905

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

The sensitivity analysis included in the financial statements of the year ended 31 March 2009 has been prepared on the same basis.

(d) Credit risk

(i) Summary of exposure

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit risk *(Continued)*

(i) Summary of exposure (Continued)

The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised below:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accounts and bills receivable	**157,359**	135,766	**—**	—
Deposits and other receivables	**70,638**	56,830	**—**	—
Amounts due from related company	**16,983**	13,544	**—**	—
Amounts due from subsidiaries	**—**	—	**97,540**	86,650
Pledged bank deposits	**—**	6,400	**—**	6,400
Cash and cash equivalents	**34,803**	42,420	**166**	70
	279,783	254,960	**97,706**	93,120

(ii) Risk management objective and policies

The Group limits its exposure to credit risk by rigorously selecting the counterparties. Credit risk on cash and cash equivalents is mitigated as cash is deposits in banks of high credit rating. Credit risk on receivables is minimised as the Group performs ongoing evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, the management reviews the recoverability of receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

As disclosed in note 6, a significant portion of Group's sales are made to several major customers. These customers made continuous settlements with the Group and therefore, the management believes that the credit risk on the amounts due is minimal. The remaining amount of accounts and bill receivable are attributable to number of counterparties and customers and therefore, the Group has no significant concentration of credit risk on these remaining amounts.

As disclosed in note 25, the carrying amount of other receivables whose terms have been renegotiated, that would otherwise be past due or impaired is HK$24,487,000 (2009: nil).

(e) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Liquidity risk *(Continued)*

The Group manages its liquidity needs on a consolidated basis by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as forecast cash inflows and outflows due in day to day business. Liquidity needs are monitored in various time bands, on a day to day and week to week basis, as well as on the basis of a rolling 30 day projection. Long term liquidity needs for a 90-day and 180-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing faculties are expected to be sufficient over the lookout period.

The Group maintains cash and short-term bank deposits to meet its liquidity requirements for 30 day periods at a minimum. Funding for longer-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell longer-term financial assets.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

Analysed below is the Group's and Company's remaining contractual maturities for its non-derivative financial liabilities as at 31 March 2010. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The analysis is based on the undiscounted cash flows of the financial liabilities.

At 31 March 2010:

	On demand *HK$'000*	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
Group					
Bank loans	—	50,328	40,251	48,896	139,475
Accounts and bills payable	—	119,344	—	—	119,344
Accrued expenses and other payables	13,744	—	—	—	13,744
	13,744	169,672	40,251	48,896	272,563

	On demand *HK$'000*	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
Company					
Amount due to a subsidiary	97,540	—	—	—	97,540
Accrued expenses and other payables	3	—	—	—	3
	97,543	—	—	—	97,543
Financial guarantees issued					
Maximum amount guaranteed	153,804	—	—	—	153,804

39. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Liquidity risk *(Continued)*

At 31 March 2009:

	On demand *HK$'000*	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
Group					
Bank loans	—	43,173	97,177	33,426	173,776
Accounts and bills payable	—	76,379	—	—	76,379
Accrued expenses and other payables	17,610	—	—	—	17,610
	17,610	119,552	97,177	33,426	267,765

	On demand *HK$'000*	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
Company					
Amount due to a subsidiary	2,077	—	—	—	2,077
Accrued expenses and other payables	3	—	—	—	3
	2,080	—	—	—	2,080
Financial guarantees issued					
Maximum amount guaranteed	149,352	—	—	—	149,352

(f) Fair values

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

40. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard the Group's ability to continue as going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group monitors its capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristic of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares, raise new debt financing or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2010 and 2009.

The Group monitors capital using gearing ratio, which is net debt divided by total equity. Net debt is calculated as bank loans less cash and cash equivalents as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at the reporting date were as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Current liabilities		
Bank loans	**47,086**	36,343
Non-current liabilities		
Bank loans	**83,813**	115,528
Total debt	**130,899**	151,871
Less: Cash and cash equivalents	**(34,803)**	(42,420)
Net debt	**96,096**	109,451
Total equity	**462,500**	395,458
Gearing ratio	**21%**	28%

41. EVENTS AFTER REPORTING DATE

On 5 April 2010, two of the Company's subsidiaries, JDL and Base Affirm, entered into an agreement with a minority equity holder of a subsidiary, in which JDL would acquire 400 shares of Base Affirm at a total consideration of HK$1.

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 March				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	170,285	206,572	317,429	472,089	**636,482**
Operating profit	28,362	35,158	74,200	73,707	**96,846**
Finance cost	(3,757)	(2,317)	(4,605)	(4,545)	**(3,811)**
Share of results of associates	—	—	(18)	(143)	**(101)**
Profit before income tax	24,605	32,841	69,577	69,019	**92,934**
Income tax expense	(1,594)	(5,786)	(11,472)	(5,682)	**(11,348)**
Profit for the year	23,011	27,055	58,105	63,337	**81,586**
Profit attributable to owners of the Company	19,459	21,060	48,255	51,522	**64,582**
Minority interests	3,552	5,995	9,850	11,815	**17,004**
Profit for the year	23,011	27,055	58,105	63,337	**81,586**
Earnings per share for profit attributable to owners of the Company during the year					
Basic (cents)	1.30	1.40	3.07	3.21	**4.02**
Diluted (cents)	N/A	1.40	N/A	N/A	**4.00**
Total assets	339,174	366,733	506,222	651,503	**737,786**
Total liabilities	(98,510)	(98,795)	(165,633)	(256,045)	**(275,286)**
Net assets	240,664	267,938	340,589	395,458	**462,500**
Share capital	5,000	5,000	16,050	16,050	**16,100**
Reserves	200,735	223,105	278,891	320,431	**370,419**
Minority interests	34,929	39,833	45,648	58,977	**75,981**
	240,664	267,938	340,589	395,458	**462,500**