



積華

**JIWA BIO-PHARM HOLDINGS LIMITED**

**積華生物醫藥控股有限公司\***

(Incorporated in Bermuda with limited liability)

(Stock Code: 2327)



 **INTERIM REPORT**  
**2010**  
5010

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## CORPORATE INFORMATION

### **Board of Directors**

#### **Executive Directors**

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

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

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

#### **Company Secretary**

Mr. Chu Kim Ho (FCCA, FCPA)

#### **Audit Committee**

Mr. Fung Tze Wa (*Chairman*)  
Mr. Chiu Wai Piu  
Mr. Choy Ping Sheung

#### **Remuneration Committee**

Mr. Choy Ping Sheung (*Chairman*)  
Mr. Chiu Wai Piu  
Mr. Fung Tze Wa

#### **Nomination Committee**

Mr. Chiu Wai Piu (*Chairman*)  
Mr. Choy Ping Sheung  
Mr. Fung Tze Wa

#### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

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

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

#### **Auditors**

Grant Thornton  
*Certified Public Accountants*

#### **Principal Bankers**

Hang Seng Bank Limited.  
Nanyang Commercial Bank Limited  
Industrial and Commercial Bank of  
China (Asia) Limited  
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](http://www.jiwa.com.hk)

#### **Stock Code**

2327

## MANAGEMENT DISCUSSION AND ANALYSIS

The directors (the "Directors") of Jiwa Bio-Pharm Holdings Limited (the "Company") are pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2010 (the "Period").

### FINANCIAL HIGHLIGHTS

	Six months ended		Increase
	30 September		
	2010	2009	
	HK\$'000	HK\$'000	
Turnover	<b>389,660</b>	326,722	19.3%
Gross profit	<b>167,835</b>	145,434	15.4%
Operating profit	<b>50,500</b>	49,398	2.2%
Profit attributable to owners of the Company	<b>35,342</b>	31,994	10.5%
Earnings per share — basic ( <i>HK cents</i> )	<b>2.20</b>	1.99	10.6%
Earnings per share — diluted ( <i>HK cents</i> )	<b>2.18</b>	1.99	9.5%

### DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

## BUSINESS REVIEW

### Segment Results

As at 30 September 2010, the operating profit of the Group amounted to HK\$50,500,000, representing an increase of 2.2% as compared with the corresponding Period last year. The operating profit was mainly derived from the finished drugs ("Finished Drugs") produced and sold by Kunming Jida Pharmaceutical Company Limited ("KJP"), representing approximately 63% of the operating profit. In addition, approximately 34.9% of the operating profit was derived from the Group's trading business ("Trading Pharmaceutical Products"), while the remaining 2.1% was derived from the pharmaceutical products distribution business ("Distribution Business"). The loss from the pharmaceutical bulk materials production business ("Pharmaceutical Bulk Materials") narrowed from HK\$4,892,000 of the corresponding Period last year to HK\$3,342,000.

For the six months ended 30 September 2010 under review, the revenue from the Finished Drugs was HK\$191,060,000, up by 7.13% from last year. The segment results was HK\$33,904,000, down by 13.5% from last year. During the Period, the sales growth of the Group's key product "Song Taisi" was still limited by the issue of raw materials supply. On the other hand, in response to the anticipated increase in sales under the medical reform in China, the Group has increased its marketing and promotional expenses, leading to a decrease in the profit of this segment as the effects of the sales efforts were not reflected during the same Period.

During the Period, Trading Pharmaceutical Products generated a revenue of HK\$91,842,000, representing an increase of 103.4% compared to last year. The segment results was HK\$18,781,000, increasing by 38.1% compared to the corresponding Period last year.

During the Period, the revenue from the Distribution Business was HK\$106,056,000, increasing by 4.8% from the corresponding Period last year. The segment results was HK\$1,157,000, or a 22.6% decrease from the corresponding Period last year. The decrease in margin was mainly attributable to an increase in marketing and promotional expenses.

During the Period, the loss from the Pharmaceutical Bulk Materials narrowed from HK\$4,892,000 of the corresponding Period last year to HK\$3,342,000. In August 2010, the Group received the GMP certification of Risperidone and Citalopram Hydrobromide from the Food and Drug Administration of Jiangsu Province, signifying the swift commencement of sales of the Pharmaceutical Bulk Materials business to generate profit contributions to the Group.

## **Strategies and Measures**

### ***Strategic Promotion of Market-leading Products***

#### *Reduced glutathione for injection*

Reduced glutathione for injection is the key product of the Group and generated total sales of HK\$138,058,000 during the Period, representing an increase of 15% as compared to the corresponding Period last year. Reduced glutathione for injection is sold by the Group under two brands, namely Song Taisi manufactured by KJP and the European brand Gluthion distributed by the Group. The total sales of the two brands amounted to HK\$66,302,000 and HK\$71,756,000 respectively. Both Song Taisi and Gluthion are leading brands in the PRC, accounting for 8% and 19% of the market share respectively. Directly imported in original packaging from Italy, Gluthion is a classic with a high-end brand image and is highly recognized by the market, and is the only glutathione product independently priced by the National Development and Reform Commission of the PRC. On the other hand, Song Taisi is positioned as a high-end domestic brand and it is for emergency uses.

In recent years, the demand for reduced glutathione for injection in the PRC has been increasing. Limited by the production capacity of the European suppliers, both Gluthion and Song Taisi encountered the situation of undersupply. As a result, the Group was unable to fully capitalize on the margin growth stimulated by the market growth. As Song Taisi was included in the latest Essential Drug List published by the Yunnan Province, the Group has decided at the beginning of 2010 to construct a production line for the vacuum freeze drying raw materials for reduced glutathione at the bulk material production base in Jiangsu, with the aim of solving the restriction on the production capacity due to insufficient import of bulk materials from abroad, and thereby enhancing the profitability of this finished product. The project's administrative and approval processes with the government in connection with the feasibility report, filing and environmental protection were completed in March 2010. Registration approval is expected to be submitted to the Drug Administration of Jiangsu Province in the third quarter of 2011. The commencement of this project will solve the issue of Song Taisi capacity being limited by the raw materials supply, enhance the Group's production capacity and sales of this product and generate immense economic benefits to the Group.

### *Triamcinolone acetonide injection*

Triamcinolone acetonide injection is another key product of the Group. During the Period, its total sales amounted to HK\$50,688,000, representing a decrease of 12.6% as compared to the corresponding Period last year. This was mainly attributable to the internal restructuring of the domestic distributors, leading to a month without normal sales during the Period. The situation was normalized since July and it is believed that this product will show significant growth in the second half of the year. Triamcinolone acetonide injection is also sold by the Group under two brands, namely Transton produced by KJP and the European brand distributed by the Group. The total sales of the two brands amounted to HK\$38,789,000 and HK\$11,899,000 respectively, accounting for 34% and 7% of the market share in the PRC respectively. Transton has been named “Yunnan Famous Brand” for many consecutive years since 2003. This product is produced with European technologies and is positioned as a high-quality domestic brand with an outstanding price-to-therapeutic performance ratio compared to its competitors. Transton is also listed on the latest Essential Drug List published by the Yunnan Province, and the management believes that this will accelerate the sales growth of Transton.

### ***Point to Plane Stimulation of High-potential Products***

The Group has launched a number of new products in recent years, in which tamsulosin hydrochloride (Jida Bente), diacerein capsule (Artrodar), edaravone injection (Jiwa Youmin) and risedronate sodium tablet (Jiwa Gusong) are the key new products of the Group. During the Period, the total sales of the four products amounted to HK\$49,149,000, representing an increase of 47.2% as compared to the corresponding Period last year. These products recorded satisfactory rate of winning tenders and are entering the phase of growth. Complemented by the expansion of the Group’s sales team in the core cities across the nation, it is expected that they will occupy important positions in the respective therapeutic areas within the coming three to five years.



### ***Aggressive Expansion of Market Share in Yunnan***

Currently, the Group has 13 products successfully listed on the latest Essential Drug List published by the Yunnan Province. Of these, 7 products are supplement items. Apart from the abovementioned triamcinolone acetonide injection and reduced glutathione for injection, these items include cefradine capsule and injection, ceftizoxime sodium for injection, sucralfate suspension, bismuth, magnesium and sodium bicarbonate tablets and Penyanjing granules. With the implementation of the new medical reform in China, the Group is determined to enhance its sales and position in the industry through capitalizing on the Essential Drug List, with a particular focus on the market share in the Yunnan Province.

### ***Ride on the Industry Development in Yunnan and Accelerate the Launch of Innovative Items***

Abounding biological resources have provided Yunnan Province with natural advantages in the development of the pharmaceutical industry. To accelerate the progression of the biopharmaceutical industry and to shape the pharmaceutical industry in Yunnan as another new pillar industry in the province after the tobacco industry, the Development and Reform Commission of Yunnan Province has joined hands with the Yunnan Pharmaceutical Profession Association in compiling the "Twelfth Five-year Plan for the Development of the Biopharmaceutical Industry in Yunnan", which was already approved at the Standing Meeting of the Yunnan Province and is pending official promulgation. It will also form the basis for implementation of the relevant policies for the development of the biological industry in Yunnan Province.

This development plan outlines the key pharmaceutical industry projects and products supported by the Yunnan Province during the Twelfth Five-year Plan Period, which include the Group's project for construction of a new production line for cephalosporins, the industrialization project for glutathione enteric-coated capsule, and the industrialization project for the pharmaceutical bulk materials and finished drugs of cefalothin. In respect of products, the Group has 11 products listed as key support products. During the Twelfth Five-year Plan Period, these projects and products will receive preferential key support from the provincial government which will facilitate the progress of the projects.

### ***Aggressive Exploration of the International Market***

Regarding the international market, the Group's finished products recorded sustained growth in the export to the ASEAN markets such as Myanmar, Vietnam and the Philippines. A breakthrough was also achieved for the South American market, where we have obtained the registration and secured the first order for a key product triamcinolone acetonide injection, following its GMP certification by the INVIMA in South America in 2008. It is expected that somatostatin for injection and ceftriaxone sodium for injection will also obtain the registration in the near future. At the same time, another key product edaravone injection also secured the first order from South Asia, symbolizing its first step in international sales. In regions with existing sales, the increase in sales is paralleled by a vertical expansion. During the year, registration work of other products has commenced in the Asian markets such as Laos, Mongolia and Thailand, as well as the Latin American markets such as Panama, Costa Rica and Dominican Republic, and it is expected that approvals will be obtained in the coming year. Furthermore, the Group has also aggressively started to work on international sales of the pharmaceutical bulk materials and has established cooperation relationships with pharmaceutical companies in India, Taiwan, Brazil, Italy and other countries, with the prospect of accelerating the start of sales in the international market by the Group.

## PROSPECT

On 9 October 2010, the three ministries namely the Ministry of Industry and Information Technology, the Ministry of Health and the State Food and Drug Administration jointly issued the “Guiding Opinions on Accelerating the Structural Adjustment in the Pharmaceutical Industry” (the “Opinions”) which specifies the chief tasks and targets for the structural adjustment in the pharmaceutical industry in the future in terms of products, technologies, organization, regions and export. In addition to demanding for an increased industry concentration, the Central Government also requires the adjustments in the regional structure, with the eastern coastal areas focusing on high-technology products characterized by high-technology, high value-added, low resource-consumption, and the central and western areas serving as the specialized production base, enabling mutual complementation among the eastern, central and western areas. Small to medium enterprises are encouraged to develop towards “professionalism, expertise, specialization, and innovation” for the formation of an industry structure of division of labor and coordinated development among the large enterprises and the small to medium enterprises.

Being the only company specialized in the production of high-end generic drugs amongst the ten key pharmaceutical enterprises in Yunnan Province, the Group will follow the State’s policy in the development towards “professionalism, expertise, specialization, and innovation” through building up a portfolio of innovative drugs by leveraging on its advantages in cost, technology and quality, and thereby consolidating its industry position with innovative drugs.

The pace of growth of the Group has been reined by the issues of shortage of raw materials supply and internal restructuring of the distributors in the first half of the year, which are expected to normalize in the second half of the year. The management is optimistic that as the national medical reform policies implement gradually, our marketing efforts made in the first half of the year will be reflected in the results of the second half of the year.

Looking ahead, the Group will gradually reinforce the structure of the board of directors and establish a professional team for its international business, tap on the capital market and proactively accelerate its own development to fully leverage on the opportunities arising throughout the “ten golden years” brought by the national policies.

## **FINANCIAL REVIEW**

### ***Liquidity***

As at 30 September 2010, cash and cash equivalents of the Group totaled approximately HK\$64,751,000 (31 March 2010: approximately HK\$34,803,000), of which approximately 7.8% are in Hong Kong dollars, 77.1% in RMB, 11.2% in US dollars, 3.7% in Euro, 0.1% in Swiss Franc and 0.1% in Macau Pataca.

As at 30 September 2010, the Group had aggregate banking facilities of approximately HK\$330,016,000 (31 March 2010: approximately HK\$287,316,000) of which approximately HK\$196,202,000 (31 March 2010: approximately HK\$153,806,000) was utilized, as to approximately HK\$71,760,000 in long term bank loans, as to approximately HK\$108,942,000 in short term bank loans and as to the balance of approximately HK\$15,500,000 in letters of guarantee issued by the relevant banks to independent third parties. The Group’s aggregate banking facilities of approximately HK\$330,016,000 include approximately HK\$36,800,000 equivalent in RMB denominated bank borrowings.

The increase in cash and cash equivalents is mainly a result of an increase in bank borrowing and stringent stock level control.

As at 30 September 2010, the Group had current assets of approximately HK\$449,626,000 (31 March 2010: approximately HK\$395,056,000) whilst current liabilities were approximately HK\$231,248,000 (31 March 2010: approximately HK\$185,451,000).

**Interest Rate Risk**

In view of comparatively high RMB interest rates, the Group had strategically borrowed the new bank loans mainly denominated in Hong Kong dollars and US dollars in order to minimise the interest rate risk during the Period.

As at 30 September 2010, the gearing ratio was approximately 22.7% (31 March 2010: approximately 17.7%), calculated based on the Group's total bank borrowings of approximately HK\$180,702,000 (31 March 2010: approximately HK\$130,899,000) over the Group's total assets of approximately HK\$797,335,000 (31 March 2010: approximately HK\$737,786,000). The higher in gearing ratio is mainly due to the increase in the short term bank borrowings which had been pledged by bank deposits.

**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 hedged with 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 client's credit worthiness. The remuneration of sales staff and marketing agents are structured so that there is a goal congruence in maintaining a robust credit risk management system.

### ***Capital Commitments***

The Group had capital commitments outstanding as at 30 September 2010 of approximately HK\$42,845,000 (31 March 2010: approximately HK\$7,380,000) of which approximately HK\$42,845,000 had been contracted for (31 March 2010: approximately HK\$7,380,000). Funding for the Group's capital commitments would come from internally generated cash flows as well as bank borrowings.

### ***Charge on Group Assets***

As at 30 September 2010, bank loans amounting to approximately HK\$114,959,000 (31 March 2010: HK\$100,316,000) were secured by certain assets of the Group having a net book value of approximately HK\$127,920,000 (31 March 2010: HK\$128,838,000).

### ***Contingent Liabilities***

As at 30 September 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.

**FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

*For the six months ended 30 September 2010*

*(Expressed in Hong Kong dollars)*

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2010</b>	2009
		<b>\$'000</b>	\$'000
	Notes	<b>(Unaudited)</b>	(Unaudited)
<b>Turnover</b>	2	<b>389,660</b>	326,722
Cost of sales		<u><b>(221,825)</b></u>	<u>(181,288)</u>
Gross profit		<b>167,835</b>	145,434
Other net income		<b>6,259</b>	3,101
Selling expenses		<b>(86,087)</b>	(68,288)
Administrative expenses		<b>(36,288)</b>	(30,076)
Other operating expenses		<u><b>(1,219)</b></u>	<u>(773)</u>
<b>Operating Profit</b>		<b>50,500</b>	49,398
Finance costs		<b>(2,642)</b>	(2,539)
Share of results of associates		<u><b>(47)</b></u>	<u>(49)</u>
<b>Profit before income tax</b>	3	<b>47,811</b>	46,810
Income tax expense	4	<u><b>(4,028)</b></u>	<u>(4,963)</u>
<b>Profit for the Period</b>		<u><b>43,783</b></u>	<u>41,847</u>
<b>Attributable to:</b>			
Owners of the Company		<b>35,342</b>	31,994
Minority interest		<u><b>8,441</b></u>	<u>9,853</u>
<b>Profit for the Period</b>		<u><b>43,783</b></u>	<u>41,847</u>
Earnings per share			
— Basic	6	<u><b>2.20 cents</b></u>	<u>1.99 cents</u>
— Diluted	6	<u><b>2.18 cents</b></u>	<u>1.99 cents</u>

The notes on page 21 to 32 form part of this interim financial statement.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Profit for the Period</b>	<b>43,783</b>	41,847
Currency translation difference	<b>8,308</b>	37
Other comprehensive income for the Period, net of tax	<b>8,308</b>	37
<b>Total comprehensive income for the Period, net of tax</b>	<b>52,091</b>	41,884
Total comprehensive income for the Period attributable to:		
Owners of the Company	<b>41,899</b>	32,031
Minority interest	<b>10,192</b>	9,853
	<b>52,091</b>	41,884



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS (UNAUDITED)**

At 30 September 2010

(Expressed in Hong Kong dollars)

		<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>246,143</b>	237,747
Land use rights	8	<b>33,762</b>	33,618
Construction in progress		<b>29,718</b>	25,149
Interests in associates		<b>19,692</b>	19,738
Intangible assets		<b>5,548</b>	5,720
Goodwill		<b>9,066</b>	9,066
Other receivables		—	7,955
Deferred tax assets		<b>3,780</b>	3,737
		<b>347,709</b>	342,730
<b>Current assets</b>			
Inventories		<b>89,727</b>	107,871
Accounts and bills receivable	9	<b>176,821</b>	157,359
Land use rights	8	<b>1,081</b>	1,057
Deposit, prepayments and other receivables		<b>87,358</b>	76,765
Amount due from related companies	15	<b>9,808</b>	16,983
Tax recoverable		<b>103</b>	218
Pledged bank deposits	10	<b>19,977</b>	—
Cash and cash equivalents	10	<b>64,751</b>	34,803
		<b>449,626</b>	395,056

		<b>At</b>	At
		<b>30 September</b>	31 March
		<b>2010</b>	2010
		<b>\$'000</b>	\$'000
Notes	<b>(Unaudited)</b>		(Audited)
<b>Current liabilities</b>			
		<b>108,942</b>	47,086
		<b>95,770</b>	119,344
	11	<b>20,112</b>	13,744
		<b>6,424</b>	5,277
		<b>231,248</b>	185,451
		<b>218,378</b>	209,605
		<b>566,087</b>	552,335
<b>Non current liabilities</b>			
		<b>71,760</b>	83,813
		<b>5,960</b>	6,022
		<b>77,720</b>	89,835
		<b>488,367</b>	462,500
<b>CAPITAL AND RESERVES</b>			
		<b>16,100</b>	16,100
	12	<b>390,817</b>	370,419
<b>Equity attributable to owners of the Company</b>			
		<b>81,450</b>	75,981
		<b>488,367</b>	462,500

The notes on page 21 to 32 form part of this interim financial statement.

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

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

	Equity attributable to equity holders of the Company													Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	General reserve fund (i) HK\$'000	Enterprise expansion fund (ii) HK\$'000	Translation reserve HK\$'000	Other reserve HK\$'000	Revaluation adjustment (iii) HK\$'000	Capital reserve (iv) HK\$'000	Share option reserve HK\$'000	Proposed final dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000		Minority interests HK\$'000
<b>(Audited)</b>															
<b>At 1 April 2009</b>	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	-	-	-	-	-	-	-	-	-	-	(16,050)	-	(16,050)	-	(16,050)
Issue of shares upon exercise of share option (notes 13)	50	1,945	-	-	-	-	-	-	-	(515)	-	-	1,500	-	1,500
Transactions with owners	50	1,945	-	-	-	-	-	-	-	(515)	(16,050)	-	(14,550)	-	(14,550)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	64,582	64,582	17,004	81,586
<b>Other comprehensive income</b>															
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 5)	-	-	-	-	-	-	-	-	-	-	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
<b>(Unaudited)</b>															
<b>At 1 April 2010</b>	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
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-	6,557	-	-	-	-	-	-	6,557	1,751	8,308
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	35,342	35,342	8,441	43,783
Total comprehensive income for the year	-	-	-	-	-	6,557	-	-	-	-	-	35,342	41,899	10,192	52,091
Final dividend paid in respect of the previous years (Note 3)	-	-	-	-	-	-	-	-	-	-	-	(20,930)	(20,930)	-	(20,930)
Dividend declared and payable to minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,294)	(5,294)
Other reserve	-	-	-	-	-	-	(571)	-	-	-	-	-	(571)	571	-
At 30 September 2010	16,100	56,097	2,000	12,722	57	33,435	(571)	(320)	2,830	1,285	20,930	262,352	406,917	81,450	488,367

*Notes:*

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

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
(UNAUDITED)**

*For the six months ended 30 September 2010*

*(Expressed in Hong Kong dollars)*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>25,367</b>	50,631
Cash outflow from investing activities	<b>(14,998)</b>	(6,871)
Net cash inflow/(outflow) from financing activities	<b>19,579</b>	(32,670)
Net increase/(decrease) in cash and cash equivalents	<b>29,948</b>	11,090
Cash and cash equivalents at 1 April	<b>34,803</b>	42,420
Cash and cash equivalents at 30 September	<b>64,751</b>	53,510

The notes on page 21 to 32 form part of this interim financial statements.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2010

(Expressed in Hong Kong dollars)

### 1 Basis of preparation and significant accounting policies

The unaudited condensed consolidated accounts for the six months ended 30 September 2010 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and complied with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed consolidated accounts have been prepared on the historical cost basis except for certain financial assets and financial liabilities measured at amortised cost.

The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2010.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2010, as described in the annual financial statements for the year ended 31 March 2010.

In the current interim Period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations issued by HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The adoption of the other new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior Period adjustment has been recognised.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>2</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>3</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>4</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>2</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 2 Segment reporting

*For the six months ended 30 September 2010*

	Trading Pharmaceutical Products and Health Care								Consolidated	
	Finished Drugs		Products		Distribution Business		Pharmaceutical Bulk Materials		2010	2009
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Revenue</b>										
Anti-infectious	66,623	62,709	-	-	-	-	-	-	66,623	62,709
Gastro-intestinal	54,326	45,314	71,064	30,366	78,135	80,621	-	-	203,525	156,301
Musculo-skeletal	29,552	46,368	19,948	13,860	22,013	16,249	-	-	71,513	76,477
Cerebro-cardiovascular	22,924	12,483	-	-	-	-	-	-	22,924	12,483
Anti-depressant and psychiatric disorder	91	51	-	-	471	220	678	2,063	1,240	2,334
Others	17,545	11,424	830	931	5,437	4,063	23	-	23,835	16,418
	<b>191,061</b>	<b>178,349</b>	<b>91,842</b>	<b>45,157</b>	<b>106,056</b>	<b>101,153</b>	<b>701</b>	<b>2,063</b>	<b>389,660</b>	<b>326,722</b>
<b>Segment results</b>	<b>33,904</b>	<b>39,196</b>	<b>18,781</b>	<b>13,600</b>	<b>1,157</b>	<b>1,494</b>	<b>(3,342)</b>	<b>(4,892)</b>	<b>50,500</b>	<b>49,398</b>
<b>Operating profit</b>									<b>50,500</b>	<b>49,398</b>
Finance costs									(2,642)	(2,539)
Taxation									(4,028)	(4,963)
Minority interest									(8,441)	(9,853)
Share of net loss in Associates									(47)	(49)
Profit attributable to shareholders									<b>35,342</b>	<b>31,994</b>



### 3 Profit from ordinary activities before taxation

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
Cost of inventories*	<b>242,478</b>	199,537
Staff costs	<b>12,637</b>	11,917
Retirement costs	<b>1,997</b>	1,659
Depreciation	<b>7,711</b>	6,891
Operating lease charges in respect of premises	<b>1,730</b>	1,936
Interest on bank advances wholly repayable within five years	<b>2,823</b>	2,539
Research and development costs	<b>3,767</b>	2,187
	<u><b>3,767</b></u>	<u>2,187</u>

\* Cost of inventories includes \$8,125,294 (2009: \$7,262,155) relating to staff cost, depreciation expenses, operating lease charges and retirement costs, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

### 4 Taxation

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Current tax</b>		
Provision for Hong Kong Profits Tax	<b>1,408</b>	1,196
Provision for PRC income tax	<b>4,433</b>	5,895
PRC tax refund	<b>(1,666)</b>	(1,984)
	<u><b>4,175</b></u>	<u>5,107</u>
<b>Deferred tax</b>		
Current Period	<b>(147)</b>	(144)
	<u><b>4,028</b></u>	<u>4,963</u>

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

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in PRC at 25% (2009: 25%).

The subsidiary Kunming Jida Pharmaceutical Company Limited ("KJP"), 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 approved on 16 March 2007.

Pursuant to notices issued by the local tax bureau, PRC income tax of \$1,666,000 (2009: \$1,984,000) was refunded to KJP in relation to purchase of equipment made in PRC under tax preferential policies in accordance with the relevant tax rules and regulations.

## 5 Dividends

<b>Six months ended</b>	
<b>30 September</b>	
<b>2010</b>	2009
<b>\$'000</b>	\$'000
<b>(Unaudited)</b>	(Unaudited)

Dividend approved and paid during the  
Period

<b>20,930</b>	16,050
---------------	--------

Pursuant to the resolutions passed at the shareholders' meeting on 30 August 2010, a final dividend of \$20,930,000 (2009: \$16,050,000) payable to the shareholders of the Company was declared and approved in respect of the year ended 31 March 2010.

The Board does not recommend the payment of an interim dividend for the Period (2009: \$Nil).

## 6 Earnings per share

The calculation of basic earnings per share is based on the Group's profits attributable to shareholders of \$35,342,000 (2009: \$31,994,000) and on the weighted average of 1,610,000,000 (2009: 1,605,000,000) ordinary shares in issue during the Period.

The diluted earnings per share is based on the profit attributable to shareholders of \$35,342,000 (2009: \$31,994,000) and the weighted average of 1,620,020,821 (2009: 1,608,014,422) ordinary shares in issue during the Period, after adjusting the effect of all dilutive potential share under the Company's share option scheme.

## 7 Property, plant and equipment

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	<b>At 31 March 2010 \$'000 (Audited)</b>
<b>Opening net book amount</b>		
<b>At 1 April 2010/1 April 2009</b>	<b>237,747</b>	241,629
Additions	<b>4,508</b>	12,638
Disposals	<b>(21)</b>	(7,031)
Depreciation	<b>(7,711)</b>	(14,559)
Transfer from construction in progress	<b>6,093</b>	5,070
Translation difference	<b>5,527</b>	—
	<hr/>	<hr/>
<b>Net book amount</b>		
<b>At 30 September 2010/31 March 2010</b>	<b>246,143</b>	237,747
	<hr/>	<hr/>

As at 30 September 2010, certain assets (buildings) of the Group with an aggregate carrying value of approximately \$99,172,000 (31 March 2009: \$99,932,000) were pledged to secure loans and borrowing facilities utilized by the Group.

**8 Land use right**

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
<b>Opening net carry amount</b>		
<b>At 1 April 2010/1 April 2009</b>	<b>34,675</b>	29,994
Acquisition	—	11,330
Disposal	—	(5,680)
Amortisation of charges of prepaid operating lease payment	<b>(547)</b>	(969)
Translation difference	<b>715</b>	—
	<hr/>	<hr/>
<b>Net carrying amount</b>		
<b>At 30 September 2010/31 March 2010</b>	<b>34,843</b>	34,675
	<hr/>	<hr/>

Land use rights with carrying amount of \$28,748,000 (31 March 2010: \$28,906,000) was pledged to secure bank loans and borrowing facilities utilized by the Group.

**9 Accounts and bills receivable**

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

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
Within 3 months	<b>154,568</b>	113,704
Aged over 3 months but less than 6 months	<b>20,581</b>	31,421
Aged over 6 months	<b>1,672</b>	12,234
	<hr/>	<hr/>
	<b>176,821</b>	157,359
	<hr/>	<hr/>

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

**10 Pledged bank deposits and cash and cash equivalents – GROUP**

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
Cash and bank balance	<b>84,728</b>	34,803
Less: Pledged bank deposits	<b>(19,977)</b>	—
Cash and cash equivalents	<b><u>64,751</u></b>	<u>34,803</u>

As at 30 September 2010, the Group had pledged bank deposits of HK\$19,977,000 (31 March 2010: Nil) to banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

**11 Accounts and bills payable**

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

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
Accounts payable		
– Within 3 months	<b>72,634</b>	91,912
– Over 3 months but within 6 months	<b>1,146</b>	3,212
– Over 6 months	<b>49</b>	1,313
Bills payable	<b><u>21,941</u></b>	<u>22,907</u>
	<b><u>95,770</u></b>	<u>119,344</u>

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

## 12 Share capital

	At 30 September 2010		At 31 March 2010	
	No. of shares	Amount \$'000 (Unaudited)	No. of shares	Amount \$'000 (Audited)
<b>Authorised:</b>				
Ordinary shares of \$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>	<u>1,610,000,000</u>	<u>16,100</u>	<u>1,610,000,000</u>	<u>16,100</u>

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

## 13 Share-based employee compensation

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

	As at 1 April 2010	Granted during the Period	Exercised during the Period	As at 30 September 2010	Date of grant	Exercise Period	Exercise price per share
<b>Director</b>							
Law Kin Tung	15,000,000	–	–	15,000,000	14/4/2008	14/4/2008 to 13/4/2013	HK\$0.180

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

## 14 Commitments

### (a) Commitments under operating leases

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

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
Within one year	<b>2,830</b>	1,421
After one year but within five years	<b>2,508</b>	81
	<b>5,338</b>	1,502

### (b) Capital commitments

The Group had capital commitments outstanding as at 30 September 2010 not provided for in the interim financial statements as follows:

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
Contracted for		
– acquisition of property, plant and equipment	<b>27,544</b>	2,648
– acquisition of technical know-how	<b>15,301</b>	4,732
	<b>42,845</b>	7,380

## 15 Material related party transactions

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

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2010</b>	2009
		<b>\$'000</b>	\$'000
Notes	<b>(Unaudited)</b>	(Unaudited)	
Sales of goods:			
— Yunnan Pharmaceutical and industrial Corporation Limited and its subsidiaries ("Yunnan Pharm Group")	(i)	<b>6,100</b>	6,363
Rentals paid:			
— Mr. Lau Yau Bor	(ii)	<b>348</b>	348
— Jiwa Investment Limited	(iii)	<b>985</b>	978

Notes:

- (i) Yunnan Pharm Group is a minority shareholder of Kunming Jida Pharmaceutical Co. Ltd, a subsidiary of the Group. The Group sold pharmaceutical products to Yunnan Pharm Group, based on the prevailing market prices.
- (ii) During the relevant Period, a Director, Mr Lau Yau Bor, leased a staff quarter to the Group. The terms were negotiated on an arm's length basis and rentals are determined in accordance with the prevailing market rate.
- (iii) Jiwa Investment Limited, which is controlled by the Directors, Mr. Lau Yau Bor and Madam Chan Hing Ming, leased staff quarters and office premises to the Group. The terms were negotiated on an arm's length basis and rentals are determined in accordance with the prevailing market rate.



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

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

*Amount due from related companies*

	<b>At 30 September 2010 \$'000 (Unaudited)</b>	At 31 March 2010 \$'000 (Audited)
Yunnan Pharm Group	<u><b>9,808</b></u>	<u>16,983</u>

**16 Approval of the interim financial statements**

The interim financial statements were approved by the Board on 25 November 2010.

## **OTHER INFORMATION**

### **EMPLOYMENT AND REMUNERATION POLICY**

As at 30 September 2010, the Group had a total of approximately 1,111 employees (31 March 2010: 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 share options to eligible employees under its share option scheme.

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

There were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2010.

### **SHARE OPTION SCHEME**

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

Details of the movement of the share options during the Period under the share option scheme are set out in Note 13 to the interim financial statements.

## DISCLOSURE OF INTERESTS

### *Directors' and Chief Executive's Interest in Shares*

The directors and chief executive of the Company who held office as at 30 September 2010 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Future 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

#### *Interests in Issued Shares*

<b>Name of Director</b>	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Total number of Shares held</b>	<b>% of total issued Shares</b>
Lau Yau Bor	83,808,000 <i>(Note 1)</i>	115,752,000 <i>(Note 2)</i>	840,000,000 <i>(Note 4)</i>	1,039,560,000	64.57%
Lau Kin Tung	– <i>(Note 1)</i>	–	105,000,000 <i>(Note 5)</i>	105,000,000	6.52%
Chan Hing Ming	40,752,000 <i>(Note 1)</i>	923,808,000 <i>(Note 3)</i>	75,000,000 <i>(Note 6)</i>	1,039,560,000	64.57%

*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, 83,808,000 Shares are held by Lau Yau Bor as beneficial owner.
4. These Shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.
5. These Shares are held by WHYS Holding Co. Ltd, the entire issued share capital of which is held by Lau Kin Tung.
6. These Shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

*Interests in Underlying Shares*

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

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

### ***Substantial Shareholders' Interests in Shares***

As at 30 September 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 30 September 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*

<b>Name of substantial shareholders</b>	<b>Capacity</b>	<b>Total Interests</b>	<b>Percentage of total issued Shares</b>
LAUs Holdings Co. Ltd.	Beneficial owner	840,000,000	52.17%
WHYS Holding Co. Ltd.	Beneficial owner	105,000,000	6.52%

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

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

## **CORPORATE GOVERNANCE**

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

## **DIRECTOR’S SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors. The Company, having made specific enquiry, confirms that all directors have complied with the required standards set out in Model Code throughout the six months ended 30 September 2010.

## **REVIEW OF INTERIM REPORTS**

The audit committee, comprising of the three independent non-executive directors of the Company, has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 September 2010.

## **APPRECIATION**

The sustained growth of the Group's results is hinged on the continuous support, commitment and contributions of the management and staff during the Period and the support shown to us by our investors. On behalf of the Board, I would like to express our deepest gratitude to the investors of the Company and the staff of the Group.

By order of the Board

**Lau Kin Tung**

*Vice Chairman and Chief Executive Officer*

Hong Kong, 25 November 2010