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## Corporate News

### Kunming Jida's Development Directive in 2007

In January 2007, the Group's major subsidiary, Kunming Jida, held its first board meeting for the year. During the meeting, the Board of Directors called upon all management and staff to adhere to the overall objectives of "strengthening implementation, promoting new products, controlling costs and innovating cooperation models" when implementing the Company's development plans and objectives in 2007 and stepping up the development of Kunming Jida.

Notwithstanding the numerous challenges and risks faced by the pharmaceutical market at large in recent years, management has made timely adjustments to its overall strategies under the Company's solid foundation. With the concerted effort of staff at all





levels, the Company has developed its core competitiveness in scientific research, production and market integration. We believe that we will make even greater progress, building on the foundation established in 2006.

Entering 2007, Kunming Jida's delivered products exceeded 12,000 in January, representing an increase of 42% over the corresponding period last year and a record high since the Company's establishment. Sales in January not only represented a good start for 2007 but also laid a solid foundation for the accomplishment of the annual sales plan.

## The Group's Vice-chairman Visited Five Countries in the Mekong River Subregion

In the second half of March this year, Mr. Lau Kin Tung, the Group's vice-chairman, joined the "Yunnan Business and Trade Delegation to Five Countries in the Subregion" (the subregion refers to the cooperation countries along the Mekong River: Burma, Laos, Vietnam, Thailand and Cambodia). Mr. Qin Guang Rong, governor of Yunnan Province, led the delegation. Members of the delegation were leaders of renowned enterprises in the province. This visit was in line with the major "reaching out" direction that China's premier has set for business enterprises. Frontier diplomacy has been the focus of the State's diplomatic policy and the central

government has been upholding the principle of "living in peace with neighbors, loving neighbors and protecting neighbors". As the five countries



visited by the delegation are rich in natural resources, the visit also conformed to the long-term direction of resource diplomacy practiced by the State. Yunnan Province is bordered by Burma, Laos and Vietnam and is near Thailand and Cambodia. Such a geographical advantage brings regional cooperative opportunities to enterprises in Yunnan Province.

Vice-chairman Lau said, "We aimed primarily at getting a more in-depth understanding of the region's political and economic development and existing market conditions through this high level visit, and we will then devise our enterprise strategies for the region after taking into account the facts. Although different countries' markets within the region are at different development stages, their basic structures and



development paths are largely the same, and are highly homogenous in terms of culture and market demand. Based on Yunnan Province's

policy of strengthening regional construction in this area, the Group will treat the markets in those countries as a consolidated regional market. This region is now at a stage when pharmaceuticals are in demand, but polarization is serious. All of the countries have demonstrated a miniature market economy, except for Burma. The earlier that one taps into these markets, the easier to create brand effect. The Company will target these developing markets and set up an independent ASEAN marketing department to develop the Mekong River subregion as a regional market."

For details about the overview of the ASEAN market and the Group's development strategies, please refer to the "Market Digest and Product News" section in this issue.

## Kunming Jida Passed the On-site Drug Registration Inspection Conducted by the Provincial Administration

From March 27 to 30, 2007, experts from the drug registration department, the safety supervision department, the center for certification and evaluation under the Yunnan Food and Drug

Administration and the provincial drug inspection bureau conducted an on-site drug registration inspection at Kunming Jida. During the inspection, numerous new products that the Company applied for registration between January 2005 and September 2006 were inspected.

The experts conducted conscientious and detailed inspection on each type of drug in four areas, namely research on prescription technique and trial production; research on quality, stability and sample inspection; research on pharmacology and toxicology; and clinical trials. In addition to concluding that the fourteen types of drugs being inspected all passed the provincial on-site inspection, experts from the inspection group recognized the standardization, authenticity and completeness of Kunming Jida's work in the research and development of drugs.





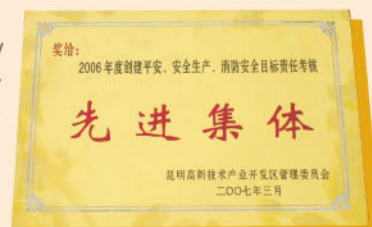
## Trial Production of Cephalosporin Bulk Material will Commence by the End of this Year

The grand inauguration ceremony for Jiangsu Jiwa Rintech Pharmaceutical's cephalosporin project, the Group's pharmaceutical bulk material manufacturing subsidiary, was held on December 23, 2006. The foundation work was completed on January 6, 2007. At present, construction of the foundations for the ancillary tank region, the hazardous material warehouse and the consolidated warehouse for the cephalosporin project have been completed. Installation work will be in full swing in the second and third quarters of this year, and system commissioning is expected to commence in the fourth quarter.

Sales of cefpirome and cefepime are entering a rapid growth stage, demand for the year 2007 is expected to reach 30 to 40 tons. The cephalosporin produced by Jiwa Rintech will be supplied to Kunming Jida and will be used as a quality pharmaceutical bulk materials by domestic pharmaceutical enterprises.

## Kunming Jida Named the "Advanced Unit in the High-Tech Development Zone that Reached the Security, Safety Production and Fire Prevention Target in 2006"

On March 16, 2007, Kunming's New and High Technology Management Committee held the "meeting to commend advanced units and advanced individuals excelling in governance work that promotes social stability, safety and public security". During the meeting, individuals and units with outstanding performance in safety production (public security, fire prevention, safety production and transportation) in 2006 were commended. After examining and evaluating the safety performance of more than 2,000 enterprises in the Development Zone, 13 "Advanced Units in Integrated Governance" were selected for commendation. Kunming Jida was named the "Advanced Unit in the High-Tech Development Zone that Reached the Security, Safety Production and Fire Prevention Target in 2006" and Gao Hong, the person in charge of the Security and Protection Department was named the "Advanced Individual in Integrated Governance".



Shouldering the responsibilities of a corporate citizen, the Group's management places heavy emphasis on fire prevention, integrated governance and safety production. With its people-oriented culture, well-defined obligations and strict policy implementation, the Group ensures that all safety work is effectively carried out to create a safe and stable environment for the establishment of a harmonious enterprise.

## Market Digest and Product News

### Business Opportunities in Developing Countries and Group Strategies

Based on Kunming Jida's overall business development plan and its successful experience in exporting to Burma, the Company will actively explore markets in developing countries (including South America and ASEAN countries) and regard export growth as one of its market development objectives in 2007.

This year, the Company target obtaining export registrations from two ASEAN countries, Thailand and Vietnam. We will apply for registration of third-generation cephalosporin for injection and injections prescribed by medical specialists.

Thailand's pharmaceutical market plays an important role in the ASEAN countries and has a strong radiation effect. The per capita medical expense in Thailand has been increasing rapidly. In Thailand's huge pharmaceutical market, drugs manufactured domestically can only satisfy 30% of market demand and another 70% of product demand from hospitals must be met by imported products. Thailand's pharmaceutical industry got a late start





and relatively weak independent research and development capability. Therefore, a large number of drugs must be imported. Thailand's total import value of pharmaceuticals reaches approximately THB20 billion (approximately RMB4 billion) per year and drugs are mainly imported from the U.S., France, the UK and Switzerland. Thailand's pharmaceutical manufacturing industry has been developing rapidly in recent years, with approximately 180 large and small domestic pharmaceutical plants manufacturing western pharmaceuticals, of which 70% have obtained GMP certification. Pharmaceutical plants are mostly private preparation manufacturing plants. More than 96% of the chemical bulk material and antibiotic bulk material are imported.

Vietnam's pharmaceutical manufacturing industry has developed for many years but market participants are mainly small-scale operators.

Characterized by a lack of capital and underdevelopment, Vietnam's pharmaceutical manufacturing industry fails to upgrade its production facilities. Apart from influenza drugs, Vietnam is incapable of producing specific drugs, including antibiotics. The annual demand for antibiotics accounts for one-third of the actual sales of western pharmaceuticals in Vietnam. Constrained by a domestic shortage of relevant pharmaceutical bulk material, Vietnam must mainly rely on imports to satisfy its demand for antibiotics.

In view of the existing market conditions in Thailand and Vietnam, the pharmaceutical markets in ASEAN countries represent boundless business opportunities for pharmaceutical enterprises in Yunnan Province. Relative disadvantages in these countries, including backward productivity, weak research and development capability and the lack of pharmaceutical bulk material, have provided market exploration opportunities for Yunnan's naturally and geographically advantaged pharmaceutical manufacturing enterprises. Being committed to the active expansion of its export business, Kunming Jida, one of the top ten pharmaceutical manufacturing enterprises in the province, is undoubtedly creating the driving force behind the Group's overall profit growth.

Regarding production capacity, Kunming Jida has invested in production and management on an ongoing basis and now owns 13 modernized GMP production lines for a wide range of dosage forms, including power for injection, small volume parenteral solutions, pre-filled syringe, capsules, tablets, and granules. The Group enjoys enormous room for

development and significant advantages by adopting a product structure that focuses on antibiotics and new drugs prescribed by specialists.

Regarding product mix, more than 30 types and specifications of dosage forms are now being produced. Pharmaceuticals manufactured are mostly chemical drugs. Types of drugs include prescription drugs, over-the-counter drugs and healthcare drugs, all with a broad range of usage. The Group reserves and launches new products into the market every year to maintain the vitality and vigor of its competitive products.

Regarding quality assurance, adopting an internal control standard that is higher than that of the State enables the Company to exercise stringent control over each of the segments throughout the production process and ensure the safety and efficacy of pharmaceuticals for market distribution and end usage, while laying a solid foundation for brand building.

Regarding exporting products, the third-generation cephalosporin for injection with wider application scope and a solid domestic sales foundation, together with new drugs for specialist prescriptions that face competition from relatively few competitors and with quality reaching international standards and unique dosage forms, are perfect products for the Thai and Vietnamese pharmaceutical markets with shortage problems. Such products also provide an excellent opportunity for the Company to tap into the ASEAN market and, subsequently, the international market.

Based on the characteristics of Thailand's and Vietnam's pharmaceutical markets and the Company's established objective to explore export markets, the Company will apply for export registration for four injections identified for export to ASEAN countries. The Company is now preparing the official registration application to be submitted to the Vietnamese government for review and approval and has also prepared for and will start the corresponding application in Thailand.

Obtaining pharmaceutical registration certificates from exporting countries is a prerequisite for entering the international market. The marketing department, the quality department and the research and development department will promote and commence pharmaceutical exports step-by-step as scheduled and explore the pharmaceutical markets of developing countries to realize the established development objective of the Company.





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## Implement a Marketing System that Manage Market Conditions

In the first half of 2006, the pharmaceutical industry of the PRC continued its uptrend and recorded a higher growth rate. As at the end of July, cumulative sales income amounted to approximately RMB260 billion, representing a year-on-year increase of approximately 18.9%, a growth rate higher than GDP growth during the same period. Increasing demand for pharmaceuticals from an aging society, gradual improvement of the pharmaceutical system, the restructuring wave within the industry and decreasing prices of upstream raw materials are creating six major trends in the PRC's pharmaceutical industry: intensified competition within the traditional Chinese medicine preparation market, shorter prescription drug lifecycles, more active development of the third terminal market, further concentration of the pharmaceutical market and further polarization of pharmaceuticals, continuation of a drop in policy prices, further acceleration of structural adjustments and more significant changes

in the product structure.

In view of the above major trends and the Company's internal



conditions, the marketing system formulated a series of policies and incentive measures to promote the sale of best-selling and flagship products, while stepping up efforts to promote the sale of new products. Management structure has deepened and has been further divided, with a regional manager leading each of two clinical teams covering the southern and northern regions, respectively. Team management has been strengthened, which has allowed for increased specialization among staff in terms of jurisdiction coverage, product and brand promotion and support. Additional business representatives have been recruited to some of the areas along the channel to ensure increased specialization and penetration into the third terminal market. All staff within the marketing system have established closer connections to improve marketing and sales execution. Such reforms have begun to bear fruit, as evidenced by the sales performance of the clinical teams in the first quarter of 2007.

## Clinical Trial of Cefepime Successfully Completed

Cefepime dihydrochloride for injection is the fourth-generation cephalosporin developed by Kunming Jida. Cefepime has numerous advantages over cephalosporins of older generation, including higher activity in vivo, wider antibacterial spectrum, lower probability of developing drug-resistant bacterial strains, smaller required dosages and easy administration. After obtaining approval for clinical research, the Company's R&D department commenced a clinical trial in March 2006 for cefepime dihydrochloride for injection, which was completed after a year. The objectives of this trial were to evaluate the efficacy and safety of cefepime dihydrochloride for injection in the treatment of acute bacterial infection and to provide clinical research information needed for product launch. Four hospitals participated in this trial, and clinical observations were conducted on 144 cases that complied with the clinical protocol requirements. Of these, 130 cases were analyzed and evaluated based on their efficacy statistics. The trial results demonstrated that in terms of clinical and bacteriological efficacy, no statistical difference existed between the trial group and the control group ( $P > 0.05$ ). The trial results also showed that the cefepime dihydrochloride for injection developed by Kunming Jida for the treatment of bacterial infection of the respiratory system is comparable to the control drug in terms of efficacy and safety.

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## The Municipality's Bureau of Technology Inspected and Accepted the Somatostatin Project

On behalf of the municipality's Bureau of Technology, a judging panel comprising seven renowned biological and medical experts from Yunnan Province inspected and accepted Kunming Jida's somatostatin project on March 1, 2007. An on-site inspection was conducted on the project by verifying each of the terms of the project contract entered into between the municipality's Bureau of Technology and the Company. All seven experts unanimously voted for the acceptance of the project.

This project (research and development of the bulk material and injection of Somatostatin) is Kunming's technology program project funded by the municipality's Bureau of Technology. Both parties have entered into the "Contract on Kunming's technology program project" and shall conclude, inspect and evaluate the project in accordance with the relevant terms of the contract. According to the Bureau of Technology's leaders, the bureau will continue to support the Company to promote scientific research in this area that was formerly untouched by the province and to contribute to the development of Yunnan.



## Activities on "Enhancing Public Understanding of Osteology" are Kicking Off, Promotion of Sales of "Artrodar" Is In Full Swing

To arrive at better treatment for clinical osteoarthritis, the Society of Osteology of the Chinese Medical Association and the Editing Department of the Chinese Medical Continuing Education Audio Visual Magazine invited more than 40 orthopedic experts, and employed rheumatism and gastrointestinal experts as consultants, to draft the document and to solicit opinions on the "Manual for the Treatment of Osteoarthritis" in 2007. In early March, a meeting was convened in Beijing to solicit manuals and expert recommendations while expert seminars will subsequently be held in numerous cities in the PRC. The "Manual for the Treatment of Osteoarthritis" will be published in the "China Osteology Magazine" in late 2007.

As one of the six company sponsors of this event, the Company will arrange for further communication and exchange between its marketing department and numerous renowned orthopedic experts in the PRC, with the view to increasing the penetration of "Artrodar". "Artrodar" will be listed in the "Manual for the Treatment of Osteoarthritis", to provide patients suffering from osteoarthritis with a more effective treatment solution.



## Room for Development and Challenges in the Healthcare Product Market

In 2006, the "Royal 2000 HHT" successfully captured the market with its distinctive positioning among all healthcare products targeted at solving joint problems. Boasting its efficacy in the management of "intractable pain", the drug was launched successfully in Hong Kong and achieved remarkable results. In 2007, the Company decided to step up its marketing efforts for "Royal 2000 HHT" and its endeavors to establish "Royal 2000-HHT" as a renowned brand in Hong Kong and an excellent solution to "intractable pain".

To establish "Royal 2000 HHT" as a renowned brand in Hong Kong, the Company implemented a comprehensive

strategic plan. Under this plan, credible research institution was engaged to collect and analyze statistics on "intractable pain" in Hong Kong. The public then was educated on the actual conditions of "intractable pain" in Hong Kong to heighten public awareness and understanding of "intractable pain" in Hong Kong and to lay a sound foundation for the next advertising campaign.

From February to March 2007, the Company engaged The University of Hong Kong to conduct research on the "Opinions and Behaviors of Hong Kong Patients Suffering from Intractable Pain" and released the research results in a press conference. Professionals from both Chinese and Western medical disciplines were invited to explain to and educate the public on "intractable pain". Attended by media practitioners from 11 media institutions, including ATV, Ta Kung Pao, Oriental Daily and Apple Daily,



who provided coverage for the event, the talk successfully aroused public awareness and enhanced the public's understanding of "intractable pain".

In addition to engaging research institutions to carry out research, the Company sponsored the production of the radio program, "A Healthy Look", aired by Metro Finance Radio and held the health talk, "Unblocking is Key to Pain Control", during which western and Chinese medical experts were invited to explain "intractable pain". The talk received overwhelming response and most of the audience was still interested in the talk on "intractable pain" even after 400 tickets were given away. This demonstrates the huge market potential for drugs targeted to treat "intractable pain".

In March, a new advertising campaign on "Royal 2000 HHT" was launched. The advertisement features "Royal 2000 HHT" beating a boxer representing "intractable pain" and conveys the message that "Royal 2000 HHT" can effectively control "intractable pain". The advertisement will appear in televisions, on radio stations and in newspapers throughout 2007 to promote sales of "Royal 2000 HHT" and enhance its brand recognition.





## Sidelights of Corporate Activities

### The Fifth "New Business Venture Cup" ended

To enrich the cultural life of staff after work, a series of activities under Kunming Jida's "New Business Venture Cup" kicked off in November last year with the approval from Company leaders and the support of the branches, labor unions and relevant Company departments. Three types of activities were organized this time: chess, calligraphy and drawing and ball games. Numerous competitions were held within two months, 43 and 11 winners were identified in individual and group competitions, respectively, and one special award was presented. Other noncompetitive activities were also organized.



This event attracted broad and active participation from directors to the great majority of the staff.

More than 90% of the staff participated in the hiking activity. To hold the fifth "New Business Venture Cup", the Company built ancillary

facilities such as a basketball court, a volleyball court and a ping-pong room. This not only provides convenience and enjoyment to the staff during their spare time, but also encourages them to strengthen their bodies and establish closer relationships with one another. Overall, the "New Business Venture Cup" was successful in every aspect.



### The Company's Annual Conference and Long Service Award Presentation Ceremony

Kunming Jida's 2006 Annual Meeting and Long Service Award Presentation Ceremony was held on January 6, 2007. During the ceremony, Company leaders presented their work reports for 2006 and business development plans for 2007. All department leaders gave a brief account of their work in 2006 and announced their work progress plans for 2007.

The "Long Service Award" presentation ceremony followed. Mr. Lau Yau Bor, Chairman of the Group, presented awards to 15 staff members who have been working at the Company for ten years. The staff all expressed their feelings after receiving the awards. Then, Company leaders announced to all the staff Kunming Jida's development directive for 2007: "strengthening implementation, promoting new products, controlling costs and innovating cooperation models" and went on to explain the meaning of "having the courage to innovate", "coping with Jida's spanning development" and "establishing a harmonious enterprise", to ensure that all staff are clear about where to put their efforts this year and to encourage them to contribute to the Company's innovation and development.



## Exchange between Staff in the PRC and Hong Kong and Management Training

Under the strong support of Company leaders, Kunming Jida's middle and senior management staff attended the professional training course, "Exploit your leadership potential and cultivate a cohesive team spirit" in March 2007. The course also provided an opportunity for exchange among staff at the Group's headquarters and was highly acclaimed by its participants.



Staff who underwent the training thought that the course was inspirational, introduced new concepts and ways of thinking, and helped them adjust their psychologies to allow them to handle their work and communications with the correct mentality and attitude.

In addition to the two-day training, the trip included visits to Disneyland, Ocean Park and Macau. The entire trip not only enhanced communications among managements, but also enabled them to take a rest amid their busy working



schedules, as well as enjoy fine cuisine and a remarkable shopping experience in Hong Kong. Hong Kong headquarters staff also took this opportunity to learn from colleagues in Kunming about detailed market operations in the PRC. This exchange had a positive impact on the entire Group and the Personnel Department will use the trip as a reference for organizing future training and staff activities.



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