



JIWA BIO-PHARM HOLDINGS LIMITED

積華生物醫藥控股有限公司

(incorporated in Bermuda with limited liability)

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e-Newsletter

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Corporate News

An Interview with the Group's Vice Chairman on the Plan for Health Care System Reform

In early April, China promulgated the "Implementation Plan for the Priorities of the Health Care System Reform" ("Health Care System Reform" or the "Plan"). The State Council stated clearly that a total of RMB850 billion will be earmarked for Health Care System Reform from 2009 to 2011 and the central government will allocate RMB118 billion in health care expenditures in 2009. It can be anticipated that the expansion of capacity to cater to the demand in the pharmaceutical market will accelerate, and capacity expansion in the essential medicine market in particular will further accelerate. In general, industry participants believe that large-scale generic drug producers will be the first to benefit from the Plan.



The editor of our newsletter interviewed Mr. Lau Kin-Tung, the Group's vice chairman and chief executive officer, regarding the launch of the Health Care System Reform and discussed with him the opportunities and challenges that the Plan brings to the Group.

Editor: How do you think this Health Care System Reform will affect domestic generic drug producers in general?

Lau: According to the Plan, the coverage rate for the urban employees' basic medical insurance, the urban residents' basic medical insurance, and the New Rural Cooperative Medical Scheme will be increased to more

than 90% within three years. By 2010, subsidies on urban residents' basic medical insurance and the New Rural Cooperative Medical Scheme will be increased to RMB120 per person per annum, and premiums should be appropriately increased. The reimbursement proportion and the maximum amount payable by the schemes will also increase. Meanwhile, the State will establish a scientifically reasonable selection mechanism and security system for the essential medicine list and include all of the essential medicines on the drug reimbursement list under medical insurance.

Top stories of this issue

- An Interview with the Group's Vice Chairman on the Plan for Health Care System Reform 1
- Kunming Jida Recognised as Among the First Group of "High-tech Enterprises" in Yunnan Province 3
- Two New Products Formally Launched into the Market 3



"Implementation Plan for the Priorities of
the Health Care System Reform" (2009-2010)

RMB850 billion earmarked for the new Health Care System Reform

- 1 Step up the establishment of the basic medical security system
- 2 Set up the State's preliminary essential medicine system
- 3 Improve the grass-roots health care service system
- 4 Promote the gradual equalisation of basic public health care services
- 5 Push forward the public hospital reform

I believe that having their medicines included in the list of essential medicines will be one of the most important objectives of generic drug enterprises. The establishment of a national essential medicine system will result in a major transformation of the pharmaceutical industry, promote drug research and innovation and a reasonable and orderly competition for drug sales, the gradual reshuffling and integration of the pharmaceutical industry, leading to a higher level of market concentration, market capacity expansion and consumption upgrade. All of this will benefit distinguished generic drug producers with brand effect within the industry.

Editor: How will the Health Care System Reform affect the Group's domestic sales?

Lau: Approximately one-third of the Group's products are antibiotics, and the remaining products are specialist drugs used for the treatment of bone and muscle diseases, diseases of the digestive system, and psychiatric diseases. A number of the Group's antibiotic products have already been included in the list. It is highly likely that sales of these products will witness exponential growth.

Editor: Do you think the Health Care System Reform will lead to a reduction in the gross profit of pharmaceutical enterprises? How will the Group cope with price competition?

Lau: With the compilation of the essential medicine list, all producers will be itching for a fight and will aim to have their products included in the list. Price competition will definitely exist. However, as long as a product is on the list, the increase in sales "volume" will more than offset the reduction in "price".

The Group has been engaged in the research and production of antibiotics for many years, and is well known for its distinguished quality. Besides continuously enhancing the efficacy of its drugs, the Group has actively researched production methods that are less costly to cope with the State's directive in strengthening the public health care system and providing welfare benefits, and to offer Chinese citizens cheap drugs with distinguished quality. In fact, the Group has decided to set up its own bulk material plants to reduce production cost and stabilise the supply of bulk materials to achieve economies of scale and add value to its products.

Editor: How has the Group positioned itself in view of the opportunities brought about by the Health Care System Reform?

Lau: Besides lowering production costs by innovative technology, as mentioned earlier, the Group's sales network is well positioned to seize opportunities, and the sales and clinical promotion teams in the second- and third-tier cities and villages have been expanded and strengthened. In addition, the Group acquired Yunnan Jiwa Pharm Logistics Co. Ltd. in October last year, with the view to strengthening the domestic sales network. According to the Health Care System Reform, the central government will support the construction of 2,000 county-level hospitals (including traditional Chinese medicine hospitals) in the next three years, the construction of 29,000 township health centers planned and supported by the central government will be completed, and 5,000 lead township health centers will be renovated and expanded. The Group has been well positioned in a timely manner to enable its products to penetrate into each and every location.

Editor: What is the Group's development direction?

Lau: In face of the development trends in the domestic pharmaceutical market, the Group will embrace "innovation" as its core principle to create a cost advantage, provide urban and rural residents with cheap products of distinguished quality, research and produce new specialist drugs using innovative technology, and target the drug market serving the affluent class and urban employees. In the long-term, I believe that the gap between the welfare portion of each system will be narrowed gradually. Therefore, research of new drugs cannot be neglected and China's consumer market will continue to improve.



Kunming Jida Recognised as Among the First Group of "High-tech Enterprises" in Yunnan Province

On 4 February 2009, the "meeting to present certificates to the first group of high-tech enterprises in Yunnan" was held jointly by the Science and Technology Department and the Finance Department of the Yunnan Province, the Yunnan Provincial Office of the State Administration of Taxation, and the Yunnan Provincial Local Taxation Bureau in Kunming. During the meeting, a "High-tech Enterprise" certificate was presented to Kunming Jida, among the first group of "High-tech enterprises" in Yunnan Province since the promulgation of the new Measures on the Designation of High-tech Enterprises.

In 2008, the Ministry of Science and Technology, Ministry of Finance, and the State Administration of Taxation jointly promulgated the new "Administrative Measures on the Designation of High-tech Enterprises" and "Guidelines on the Administrative Work Regarding the Designation of High-tech Enterprises", pursuant to which Yunnan Province set up a steering group to undertake the administrative work regarding the designation of high-tech enterprises, and the relevant work has commenced. The new "Administrative Measures on the Designation of High-tech Enterprises" represents the third adjustment to the administrative policy governing the country's designation of high-tech enterprises. Under the new measures, the country will designate high-tech enterprises according to the new standards. Enterprises designated as high-tech enterprises may enjoy a tax relief and pay income tax at a rate of

15%. Existing high-tech enterprises at the provincial level can only enjoy the tax relief upon re-designation. The company actively participated in the application for such a designation based on its own conditions. After the company's meticulous preparation and the expert group's conscientious appraisal, Kunming Jida was successfully granted the designation and is among the first group of designated high-tech enterprises in the Province.

The designation of "high-tech enterprise" is a recognition of the Group's continuous pursuit of technological innovation, and will encourage the company to further step up the establishment of its scientific research team, strengthen its independent innovation capability, and ultimately enhance the overall competitiveness of the enterprise.



Market Digest and Product News

Two New Products Formally Launched into the Market

Sucralfate Suspensoid Gel (Product Name: Sukeli)

Sucralfate is a classical variety that demonstrates efficacy in the treatment of diseases of the digestive system. Since launching into the market in 1968, sucralfate has proved to be effective in more than a hundred large-scale clinical trials conducted all over the world. However, the traditional sucralfate preparation (including tablet, granule, capsule, and suspension) was made from regular sucralfate bulk material, and the problems regarding disintegration and the fineness of the granule have not been solved properly. Because of technological limitations, the fineness of the granule is large and there exist defects in varying degrees, which affect its efficacy.

Sukeli is a new dosage form and a new generation product. It has a unique molecular structure, an advanced dosage form, and distinct advantages over similar products. Sukeli can be launched for sale now and sales representatives all over the country have actively commenced promotional work. After launching into the market, Sukeli is set to be the source of profit growth for the company.



Cefaclor for Suspension (Product Nam: Kechilor)



Pediatric anti-infection drugs in China are mainly sold in the form of injection and oral preparation. Oral preparation is characterised by convenient drug administration, good efficacy, and fewer toxic side effects. With oral anti-infection drugs having stronger antibiotic effect and less adverse reactions in recent years, those with dosage form, texture, look, and packaging suitable for children have been launched into the market one after another, and have, to a large extent, promoted the development of anti-infection drugs produced specifically for children. In 2005, Cefaclor was one of the top ten products with the largest share in the market for pediatric oral antibiotics and captured a market share of 19.49%.

In view of its market growth, Cefaclor has already maintained a leading position in the oral antibiotic market. As the pace of working and living continues to accelerate, oral antibiotic products that are easy to administer and that are economical will increase in popularity among patients. Besides, after years of clinical application, this product has developed into a more mature variety. Supported by these conditions, the market prospects of the product will be promising, and the room for growth will be tremendous.

Clinical Approval Document Received for Citalopram Chewable Tablet

Citalopram is a very strong antidepressant drug. The Citalopram chewable tablet declared by the Group has been granted a patent, and is a product with independent intellectual property rights. The dosage form has not been launched into the domestic and overseas markets. This variety was declared to the State Food and Drug Administration in 2006 and examined onsite by drug registration authorities at the provincial and municipal levels. The specific work on drug evaluation commenced in 2008 and the drug clinical trial approval document was received in January 2009. The chewable tablet has distinct advantages in clinical applications and the launch of the product into the market will give clinical doctors a wider range of choices when choosing this type of medicine.

The Group's Product Designated As "Yunnan Province's Famous Trademark" and "Yunnan Province's Brand Name Product"

The 2009 economic work conference of the High-tech Development Zone of Kunming was held on 16 March 2009. During the conference, a group of enterprises, which have contributed in promoting the economic development of the Zone, was commended and rewarded. Meanwhile, the Management Committee commended and rewarded enterprises having brand name products in an attempt to encourage enterprises to actively participate in the implementation of brand name strategies and create more brand name trademarks to promote building of the brand name in the High-tech Development Zone of Kunming. The Group's famous product, Song Taisi, is designated as "Yunnan Province's Famous Trademark" and "Yunnan Province's Brand Name Product". Another product, Radin has been re-designated as "Yunnan Province's Brand Name Product". In the future, the Group will continue to enhance brand value by improving quality and by using its brand name to promote sales to actively maximise shareholder return.



Sidelights of Corporate Activities

Participation in the 13th "Southeast Asian Healthcare Show" in Malaysia

On 1 to 3 April 2009, representatives from the Group's international marketing department set up a booth at the "Southeast Asian Healthcare Show" to introduce products to attendees. In 2008, the total value of the pharmaceutical industry in Malaysia amounted to USD972 million, representing an estimated year-on-year growth of 11%. Participating in the show helped promote the Group's brand and enabled the Group's products to be displayed before potential buyers, which stimulated the Group's sales in Southeast Asia in future.



The Company Provided Training on "Comprehensive Quality Control"

With the view to systematically improving the quality management standard, the Group organised a five-day "Comprehensive Quality Control" training in February. Forty-four management staff involved with quality control from the quality system, the production system, the engineering department, and the procurement and supplies department attended the training sessions. To provide the trainees with better learning, communication, and exchange opportunities, and to improve

the learning outcome of the training, the company specifically arranged the training to be an off-the-job closed event.

As a pharmaceutical enterprise, the Group adheres to its business philosophy of "quality first" and actively fulfills its social responsibility while delivering shareholder return.

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