

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



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)

MEMORANDUM OF UNDERSTANDING RELATING TO A POSSIBLE DEEMED DISPOSAL OF EQUITY INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY AND VERY SUBSTANTIAL DISPOSAL

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

The Board is pleased to announce that on 14 December 2010, the Company, Kunming Jida, a non-wholly owned subsidiary of the Company, and the PE Investor (being a key party of the Subscribers) entered into a non-legally binding Memorandum of Understanding in relation to the Proposed Capital Injection into the capital of Kunming Jida by the Subscribers. Pursuant to Rule 14.29 of the Listing Rules, the Proposed Capital Injection will dilute the Company's equity interest in Kunming Jida and this may be regarded as a deemed disposal by the Company and may constitute a very substantial disposal of the Company under the Listing Rules.

The Board wishes to emphasize that no legally binding agreement in relation to the Proposed Capital Injection has been entered into as at the date of the announcement. The final terms of the formal capital injection agreement, including but not limited to the consideration, in relation to the Proposed Capital Injection, have yet to be determined and finalised. As the Proposed Capital Injection may or may not proceed, public investors and the shareholders of the Company are urged to exercise caution when dealing in the shares of the Company.

* *For identification purpose only*

In the event the Proposed Capital Injection materialises, the Proposed Capital Injection may be regarded as a deemed disposal by the Company and may constitute a very substantial disposal under the Listing Rules. The Company will comply with the relevant disclosures and/or shareholders' approval requirements of the Listing Rules. Further announcement will be made if appropriate or required under the Listing Rules.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

THE MEMORANDUM OF UNDERSTANDING

The Board is pleased to announce that on 14 December 2010, the Company, Kunming Jida, a non-wholly owned subsidiary of the Company, and the PE Investor (being a key party of the Subscribers) entered into a non-legally binding Memorandum of Understanding in relation to the Proposed Capital Injection into the capital of Kunming Jida by the Subscribers. Pursuant to Rule 14.29 of the Listing Rules, the Proposed Capital Injection will dilute the Company's equity interest in Kunming Jida and this may be regarded as a deemed disposal by the Company and may constitute a very substantial disposal of the Company under the Listing Rules.

The Directors have confirmed that to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the PE Investor and its ultimate beneficial owners are not connected persons of the Company. Some of the Subscribers may include directors and senior management of the Group.

PROPOSED CAPITAL INJECTION

Pursuant to the Memorandum of Understanding, the Subscribers intend to inject not more than approximately RMB280 million (or equivalent to approximately HK\$329.4 million) to the capital of Kunming Jida, representing approximately 30% equity interests thereof as enlarged by the Proposed Capital Injection.

The parties to the Memorandum of Understanding mutually agreed that if the PE Investor is satisfied with the results of due diligence review on Kunming Jida and intends to undertake the Proposed Capital Injection, all parties would negotiate and use best endeavours to enter into a formal capital injection agreement by the end of December 2010.

EXCLUSIVITY UNDERTAKING

Under the Memorandum of Understanding, the Group has agreed that it would not negotiate with any other third party, other than the PE Investor, for any probable capital injection into the capital of Kunming Jida from the date of the Memorandum of Understanding up to 27 January 2011 (the "Exclusivity Undertaking").

NON-LEGALLY BINDING COMMITMENT

Except for the Exclusivity Undertaking, confidentiality obligations, governing law and other relevant provisions in the Memorandum of Understanding, the Memorandum of Understanding does not constitute legally binding commitments on the parties in relation to the Proposed Capital Injection. If the Proposed Capital Injection does proceed, the parties will enter into a formal capital injection agreement in which relevant terms and conditions will be further negotiated and finalised.

REASONS FOR AND BENEFITS OF THE PROPOSED CAPITAL INJECTION

The Group is principally engaged in the manufacturing and sale of pharmaceutical and pharmaceutical bulk materials; trading of pharmaceutical and health care products; and distributions of pharmaceutical products.

Kunming Jida is a sino-foreign owned enterprise established under the laws of the PRC on 14 August 1993 with limited liability, and has both registered and paid up capital of RMB132,334,000 (equivalent to approximately HK\$155.7 million). Kunming Jida is principally engaged in the manufacturing and trading of pharmaceutical products in the PRC.

The Board considers that the Proposed Capital Injection would enhance the capital base of and provide additional financial resources to Kunming Jida, which will in turn facilitate its future business expansion and/or probable acquisition activities when opportunities arise. As part of the Proposed Capital Injection, Kunming Jida and the PE Investor currently intend to apply not more than RMB110 million (or equivalent to approximately HK\$129.4 million) for acquisition of the entire equity interests of two wholly-owned subsidiaries of the Group. The Board considers it would enhance the streamlining of pharmaceutical platform of the Group under Kunming Jida, to facilitate its brand building, operational efficiency as well as further expansion.

In addition, certain of the ultimate beneficial owners of the Subscribers are key management staff of Kunming Jida and other member companies of the Group who have devoted effort, experience and contribution to Kunming Jida over the years of its business development. In light of the contribution made by such Subscribers to the business, operation and future development of Kunming Jida, the Board considers that it will be in the interests of the Company and the Shareholders as a whole to secure their long-term commitment and contribution to Kunming Jida which will be significant to the growth and development of Kunming Jida through their participation as shareholders of Kunming Jida when the Proposed Capital Injection materialises.

It is currently anticipated that the Group will not have absolute majority interest in Kunming Jida following the completion of the Proposed Capital Injection. In this regard, the Group will not be able to secure the passing of resolutions that only require simply majority votes. Notwithstanding the aforesaid, the Board is not aware of any matters arising from the Proposed Capital Injection which will prejudice the operation, management and development of Kunming Jida after its completion. As such, the Board does not foresee the Group's loss of absolute majority interest in Kunming Jida will have any material adverse impact on the Group's interest therein.

Given the significance of the Subscribers' (i) sizeable capital injection and (ii) long-term commitment and contribution to the growth and development of Kunming Jida, the Board considers that the benefits of the Proposed Capital Injection outweigh the disadvantages brought to the Group as a result of the loss of absolute majority interest in Kunming Jida. The Company has no present intention to further dispose of or dilute its interest in Kunming Jida.

In addition, disregarding the possible one-off gain on disposal of certain equity interest in Kunming Jida, the Proposed Capital Injection would enable Kunming Jida to raise capital to further strengthen its financial position, which, in turn, is beneficial for the business development of Kunming Jida and the Group itself in the foreseeable future.

The Board currently estimates that the dilution of the Group's shareholding interest of approximately 21% in Kunming Jida as a result of the Proposed Capital Injection will give rise to a gain on the deemed disposal, being the difference between (i) the net asset value of the Kunming Jida after deducting minority interests as at the completion date; and (ii) the estimated value of Kunming Jida as enlarged by the proceeds from the Proposed Capital Injection to be transferred to interest in a jointly controlled entity. Such gain on dilution is resulted from the accounting treatment under the applicable accounting standards but has no practical adverse impact on the financial, trading or operational conditions of the Group.

In view of the above, the Board considers the terms of the Memorandum and Understanding and the Proposed Capital Injection are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

GENERAL

The Memorandum of Understanding does not constitute legally binding commitment on the part of the parties in relation to the Proposed Capital Injection.

The Board wishes to emphasize that no legally binding agreement in relation to the Proposed Capital Injection has been entered into as at the date of the announcement. The final terms of the formal capital injection agreement, including but not limited to the consideration, in relation to the Proposed Capital Injection, have yet to be determined and finalised. As the Proposed Capital Injection may or may not proceed, public investors and the shareholders of the Company are urged to exercise caution when dealing in the shares of the Company.

In the event the Proposed Capital Injection materialises, the Proposed Capital Injection may be regarded as a deemed disposal by the Company and may constitute a very substantial disposal under the Listing Rules. The Company will comply with the relevant disclosures and/or shareholders' approval requirements of the Listing Rules. Further announcement will be made, if appropriate or required under the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	the board of Directors
“Company”	Jiwa Bio-Pharm Holdings Limited (Stock Code: 2327), a company incorporated in the Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	the Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kunming Jida”	昆明積大製藥有限公司 (Kunming Jida Pharmaceutical Company Limited [#]), a sino-foreign owned enterprise established under the laws of the PRC with limited liability on 14 August 1993 which is owned as to (i) 70% by the Company; and (ii) 30% by 雲南醫藥工業股份有限公司 (Yunnan Pharmaceutical Industrial Holdings Company Limited [#]), a domestic enterprise established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Understanding”	memorandum of understanding dated 14 December 2010 made between the Group and the PE Investor in relation to the Proposed Capital Injection
“PE Investor”	a leading global private equity firm established in the United States of America, which is not a connected person of the Company
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan

“Proposed Capital Injection”	the capital injection into Kunming Jida by each of the Subscribers in accordance with the terms and conditions of a formal capital injection agreement to be negotiated and finalised between the Group and the Subscribers
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	collectively, the PE Investor, certain directors and senior management of the Group and certain other parties who are not connected persons of the Company
“%”	per cent.

The English transliteration of the Chinese names in this announcement, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.

For the purpose of illustration only, amounts denominated in RMB in this announcement have been translated into HK\$ at the rate of RMB0.85 = HK\$1. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.

By order of the Board
Jiwa Bio-Pharm Holdings Limited
Lau Kin Tung
Vice Chairman and Chief Executive Officer

Hong Kong, 15 December 2010

As at the date of this announcement, the executive Directors are Mr. Lau Yau Bor (the Chairman), Mr. Lau Kin Tung (Vice Chairman and Chief Executive Officer) and Madam Chan Hing Ming; and the independent non-executive Directors are Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa.

This announcement will remain on the “Latest Company Announcements” page of the Stock Exchange’s website for at least seven days from the day of its posting and on the website of the Company at www.jiwa.com.hk.