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If you have sold or transferred all your shares in Jiwa Bio-Pharm Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agents through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

- (1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO
DISPOSAL OF EQUITY INTERESTS IN
SUBSIDIARY COMPANIES;**
- (2) SPECIFIC MANDATE TO ISSUE NEW SHARES;**
- (3) CHANGE OF AUDITORS
AND**
- (4) NOTICE OF SPECIAL GENERAL MEETING**

Financial adviser to the Company



A notice convening a special general meeting of the Company to be held at Conference Room 3, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong at 11:00 a.m. on Tuesday, 29 March 2011 is set out on pages 113 to 116 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular.

Whether or not you are able to attend the special general meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

14 March 2011

* For identification purpose only

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DEFINITIONS

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

“Agreements”	collectively, the Capital Injection Agreements, the Jiangsu Jiwa Disposal Agreement, the Yunnan Jiwa Disposal Agreement and the Shareholder Agreements
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Capital Injection Agreements”	(i) the conditional agreement dated 16 February 2011 entered into among Kunming Jida, Jiwa Pharm, Yunnan Pharm and the PE Investor; and (ii) the conditional agreement dated 16 February 2011 entered into among Kunming Jida, Jiwa Pharm, Yunnan Pharm, Panda, Mr. Yang and Mr. Li, pursuant to which the Subscribers have agreed to inject the prescribed amount of capital in Kunming Jida pursuant to the terms and conditions of the respective agreements
“Capital Injection Completion”	completion of the Proposed Capital Injection as contemplated under the Capital Injection Agreements
“Capital Injection Completion Date”	the date on which the Capital Injection Completion takes place
“Company”	Jiwa Bio-Pharm Holdings Limited (Stock Code: 2327), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	collectively, the Capital Injection Completion, Jiangsu Jiwa Completion and Yunnan Jiwa Completion
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company

DEFINITIONS

“Disposal”	collectively, the deemed disposal by the Company pursuant to the Proposed Capital Injection, the Jiangsu Jiwa Disposal and the Yunnan Jiwa Disposal
“Disposed Group”	collectively, Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa following the Completion
“Group”	the Company and its subsidiaries
“HK GAAP”	the generally accepted accounting principles, standards and practices in Hong Kong
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(s) who/which is/are not connected with the Company or any of its subsidiaries or the directors, chief executive or substantial shareholders (as defined under the Listing Rules) of the Company or any of its subsidiaries, or any of their respective associates
“Jiangsu Jiwa”	江蘇積華靈大製藥有限公司 (Jiangsu Jiwa Rintech Pharmaceutical Company Limited*), a wholly foreign-owned enterprise established under the laws of the PRC with limited liability on 21 November 2003 which is wholly owned by Jiwa Rintech
“Jiangsu Jiwa Completion”	completion of the Jiangsu Jiwa Disposal
“Jiangsu Jiwa Completion Date”	the date on which Jiangsu Jiwa Completion takes place
“Jiangsu Jiwa Consideration”	the aggregate consideration of not less than RMB60.0 million (equivalent to approximately HK\$70.6 million) and not more than RMB66.0 million (equivalent to approximately HK\$77.6 million) for disposal of the 100% equity interest in Jiangsu Jiwa under the Jiangsu Jiwa Disposal Agreement

DEFINITIONS

“Jiangsu Jiwa Disposal Agreement”	an agreement dated 16 February 2011 entered into among the Company, Jiwa Rintech, Kunming Jida and Jiangsu Jiwa in relation to the Jiangsu Jiwa Disposal
“Jiwa P&C”	Jiwa Pharm & Chemicals Limited (積華醫藥化工有限公司), a company incorporated in Hong Kong with limited liability on 16 October 1987 and an indirect wholly-owned subsidiary of the Company, which in turn is the immediate holding company holding 93% equity interest in Yunnan Jiwa
“Jiwa Pharm”	Jiwa Pharmaceuticals Limited (積華藥業有限公司), a company incorporated in Hong Kong with limited liability on 10 October 1995 and an indirect wholly-owned subsidiary of the Company, which in turn is the immediate holding company holding 70% equity interest in Kunming Jida
“Jiwa Rintech”	Jiwa Rintech Holdings Limited, a company incorporated in the British Virgin Islands with limited liability on 8 December 2004 and an indirect wholly-owned subsidiary of the Company, which in turn is the immediate holding company holding 100% equity interest in Jiangsu Jiwa
“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 Jiwa Pharm; and (ii) 30% by Yunnan Pharm. Immediately upon the Capital Injection Completion, the Group will only retain 49% equity interest in Kunming Jida

DEFINITIONS

“Kunming Jizhong”	昆明積衆企業管理諮詢有限公司 (Kunming Jizhong Corporate Management and Consultancy Company Limited*), a company established in the PRC with limited liability on 7 March 2011 and which will hold approximately 2.0% equity interest of Kunming Jida as enlarged by the Proposed Capital Injection. This is the investment vehicle whom Mr. Li acted as representative at time of signing the Capital Injection Agreement. Its principal business activity is investment holding
“Last Trading Day”	15 February 2011, being the last day on which the Shares were traded on the Stock Exchange prior to the date of entering into the Agreements
“Latest Practicable Date”	11 March 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	李鴻翔 (Li Hong Xiang), being the representative for an investment vehicle to be incorporated at the time of signing the Capital Injection Agreement and as representative for a group of employees of Kunming Jida which in turn will hold approximately 2.0% of the equity interest in Kunming Jida as enlarged by the Proposed Capital Injection
“Mr. Shek”	石文輝 (Shek Man Fai), being a director of two subsidiaries of the Group
“Mr. Yang	楊建新 (Yang Jian Xin), being the representative for an investment vehicle to be formed which in turn will hold approximately 2.5% of the equity interest as enlarged by the Proposed Capital Injection
“Ms. Luo”	羅冬梅 (Luo Dong Mei), being a director of a subsidiary of the Group

DEFINITIONS

“Panda”	Panda BT Limited (佰大生物科技有限公司), a company incorporated in Hong Kong with limited liability on 25 November 2010 and which will hold approximately 5.5% equity interest of Kunming Jida as enlarged by the Proposed Capital Injection. Its principal business activity is investment holding
“PE Investor” or “Warburg Pincus”	Green Grove Investment Ltd., a company incorporated in Mauritius with limited liability, and is owned by Warburg Pincus Private Equity X, L.P., and Warburg Pincus X Partners, L.P., both of which are managed by Warburg Pincus LLC, a global private equity firm established in the United States of America. Green Grove Investment Ltd., Warburg Pincus LLC, their affiliates and ultimate beneficial owners are all Independent Third Parties
“PRC”	the People’s Republic of China, and for the purpose of this circular, 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 the Capital Injection Agreements
“Remaining Group”	the Group immediately after the Completion
“Repurchase Obligation”	the obligation of the Company to repurchase each Subscriber’s interest in Kunming Jida in accordance with the terms of the Shareholder Agreements
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving (i) the terms of Proposed Capital Injection, the Jiangsu Jiwa Disposal and the Yunnan Jiwa Disposal pursuant to each of the Agreements and the transactions contemplated thereunder (including the Repurchase Obligation); (ii) the Specific Mandate to issue new Shares; and (iii) the proposed change of auditors
“Share(s)”	the existing share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shareholder Agreements”	(i) the conditional agreement dated 16 February 2011 entered into among the Company, Jiwa Pharm and the PE Investor; and (ii) the conditional agreement dated 16 February 2011 entered into among the Company, Jiwa Pharm, Panda, Mr. Yang and Mr. Li, pursuant to which the Company, Jiwa Pharm and the Subscribers have agreed on certain rights and obligations among the parties thereto in accordance with the terms and conditions of the respective agreements
“Specific Mandate”	a specific mandate proposed to be granted to the Directors in relation to the allotment and issue of a maximum number of 241,500,000 new Shares at a minimum issue price of HK\$0.65 per new Share by the Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	collectively, the PE Investor, Panda, Mr. Yang and Mr. Li, together with their respective ultimate beneficial owners; other than two directors of certain subsidiaries of the Group, namely Mr. Shek and Ms. Luo, who are not connected persons of the Company

DEFINITIONS

“US\$”	United States dollar(s), the lawful currency of the United States of America
“Vendor(s)”	collectively, Jiwa Rintech and Jiwa P&C
“working day(s)”	a day on which commercial banks in the PRC and Hong Kong are generally open for business (excluding Saturdays, Sundays and public holidays of both places)
“Yunnan Jiwa”	雲南積華醫藥物流有限公司 (Yunnan Jiwa Pharm Logistics Company Limited*), a sino-foreign owned enterprise established under the laws of the PRC with limited liability on 9 February 2002 which is owned as (i) 93% by Jiwa P&C; and (ii) 7% by Jiangsu Jiwa
“Yunnan Jiwa Completion”	completion of the Yunnan Jiwa Disposal
“Yunnan Jiwa Completion Date”	the date on which Yunnan Jiwa Completion takes place
“Yunnan Jiwa Consideration”	the aggregate consideration of not less than RMB33.0 million (equivalent to approximately HK\$38.8 million) and not more than RMB37.0 million (equivalent to approximately HK\$43.5 million for the disposal of the 93% equity interest in Yunnan Jiwa under the Yunnan Jiwa Disposal Agreement
“Yunnan Jiwa Disposal”	the disposal of the 93% effective equity interest owned by Jiwa P&C in Yunnan Jiwa by the Group to the Kunming Jida pursuant to the Yunnan Jiwa Disposal Agreement
“Yunnan Jiwa Disposal Agreement”	an agreement dated 16 February 2011 entered into among the Company, Jiwa P&C, Kunming Jida and Yunnan Jiwa in relation to the Yunnan Jiwa Disposal

DEFINITIONS

“Yunnan Pharm”

雲南醫藥工業股份有限公司 (Yunnan Pharmaceutical Industrial Holdings Company Limited*), a domestic enterprise established in Yunnan Province, the PRC and which held a 30% equity interest in Kunming Jida as at the Latest Practicable Date. Immediately upon the Capital Injection Completion, Yunnan Pharm will only retain a 21% equity interest in Kunming Jida

“%”

per cent.

* *The English transliteration of the Chinese names in this circular, 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 circular 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.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Lau Yau Bor (*Chairman*)

Mr. Lau Kin Tung (*Vice chairman and
Chief Executive Officer*)

Madam Chan Hing Ming

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Chiu Wai Piu

Mr. Choy Ping Sheung

Mr. Fung Tze Wa

*Head office and principal place
of business in Hong Kong:*
2904 & 2906, Tower One
Lippo Centre
89 Queensway
Central
Hong Kong

14 March 2011

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO
DISPOSAL OF EQUITY INTERESTS IN
SUBSIDIARY COMPANIES;**
**(2) SPECIFIC MANDATE TO ISSUE NEW SHARES;
AND**
(3) CHANGE OF AUDITORS

INTRODUCTION

Reference is made to the announcement of the Company dated 16 February 2011 in relation to the allotment and issue of a total of 30% equity interest by Kunming Jida to the Subscribers at an aggregate capital injection amount of RMB275,560,000 (equivalent to approximately HK\$324.2 million) pursuant to the Capital Injection Agreements.

* For identification purpose only

LETTER FROM THE BOARD

In connection with Capital Injection Agreements, the Group, through Jiwa Rintech and Jiwa P&C, and, among others, Kunming Jida have after trading hours on 16 February 2011 also entered into each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement in relation to the sale by the Group and the purchase by Kunming Jida of (i) 100% effective equity interest in Jiangsu Jiwa at a cash consideration of not less than RMB60.0 million (equivalent to approximately HK\$70.6 million) and not more than RMB66.0 million (equivalent to approximately HK\$77.6 million); and (ii) 93% effective equity interest in Yunnan Jiwa at a cash consideration of not less than RMB33.0 million (equivalent to approximately HK\$38.8 million) and not more than RMB37.0 million (equivalent to approximately HK\$43.5 million).

In conjunction with the Capital Injection Agreements, the Company, Jiwa Pharm and the Subscribers have also entered into two Shareholder Agreements, pursuant to which the Company has agreed with the Subscribers that if Kunming Jida does not obtain a listing on a stock exchange within 48 months from the Capital Injection Completion Date, each of the Subscribers may, within six months from the expiry of such 48 months, require the Company to purchase such Subscriber's interest in Kunming Jida at a purchase price equal to the amount of such Subscriber's capital injection pursuant to the Proposed Capital Injection (subject to certain adjustments), plus a compound interest at an annual rate of 10% thereon. Based on the Directors' current estimate, the maximum monetary value under the Repurchase Obligation would be approximately RMB403.4 million (equivalent to approximately HK\$474.6 million).

Under the two Shareholder Agreements, upon the exercise by any Subscriber of its right to require the Company to purchase such Subscriber's interest in Kunming Jida as described above, the Company may elect, in its absolute discretion, to pay the relevant purchase price in cash, in new Shares or any combination thereof. In order to facilitate payment by the Company, if it elects to do so in its absolute discretion, of such purchase price in Shares to fulfill the Repurchase Obligation, the Directors are now seeking the Shareholders' approval to grant a specific mandate to allot and issue a maximum number of 241,500,000 new Shares to the Subscribers (if the Directors consider appropriate), representing 15% of the issued share capital of the Company as at the Latest Practicable Date, at a minimum issue price of HK\$0.65 per Share.

The Board also announces that JPB & Co (formerly Grant Thornton) ("GTHK") has resigned as auditors of the Company with effect upon closing of the SGM. The Board proposes to appoint BDO Limited as the auditors of the Company to fill the casual vacancy following GTHK's resignation and to hold office until the conclusion of the next annual general meeting of the Company subject to the approval by the Shareholders at the SGM to be convened.

LETTER FROM THE BOARD

The main purpose of this circular is to provide you with (i) further information on the Disposal comprising the Proposed Capital Injection, the Jiangsu Jiwa Disposal and the Yunnan Jiwa Disposal and the Agreements; (ii) the Specific Mandate to issue new Shares, (iii) the change of auditors; and (iv) a notice to convene the SGM; and (v) other information as required by the Listing Rules.

1. THE DISPOSAL

The Capital Injection Agreements

The Board announced that after trading hours on 16 February 2011, Kunming Jida (together with Jiwa Pharm and Yunnan Pharm, the existing equity holders of Kunming Jida) and the Subscribers entered into the Capital Injection Agreements in relation to the allotment and issue of a total of 30% equity interest by Kunming Jida to the Subscribers at an aggregate capital injection amount of RMB275,560,000 (equivalent to approximately HK\$324.2 million). Pursuant to Rule 14.29 of the Listing Rules, the Proposed Capital Injection as contemplated under the Capital Injection Agreements is a deemed disposal by the Company of its equity interest in Kunming Jida. Set out below is the principal terms of each of the Capital Injection Agreements.

	Warburg Pincus	Panda	Mr. Yang	Mr. Li
Date	: 16 February 2011	16 February 2011	16 February 2011	16 February 2011
Issuer	: Kunming Jida	Kunming Jida	Kunming Jida	Kunming Jida

LETTER FROM THE BOARD

	Warburg Pincus	Panda	Mr. Yang	Mr. Li
Subscribers	: Warburg Pincus	Panda. Other than Mr. Shek who is a director of certain subsidiaries of the Group, the ultimate beneficial owners of Panda are Independent Third Parties and do not have any business relationship with the Group	Mr. Yang, on behalf of an investment vehicle to be established, the ultimate beneficial owners of which are Independent Third Parties and do not have any business relationship with the Group	Mr. Li, on behalf of Kunming Jizhong and as representative of a group of employees of the Group. Other than Ms. Luo who is a director of a subsidiary of the Group but does not have any business relationship with the Group, the ultimate beneficial owners of Kunming Jizhong are Independent Third Parties and do not have any business relationship with the Group
Total capital amount to be injected by the Subscribers in cash by 30 April 2011 (RMB)	: 183,710,000	50,070,000	23,210,000	18,570,000

LETTER FROM THE BOARD

	Warburg Pincus	Panda	Mr. Yang	Mr. Li
Percentage of equity interest in Kunming Jida to be held immediately following the Capital Injection Completion	: 20.0%	5.5%	2.5%	2.0%
Capital amount injected for each 1% equity interest in Kunming Jida as enlarged by the Proposed Capital Injection (RMB)	: 9,185,500	9,103,636	9,284,000	9,285,000

Save as disclosed in this circular, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Subscribers and their respective ultimate beneficial owners are Independent Third Parties.

Basis for determination of the amount of the Proposed Capital Injection

The capital amounts to be injected by each of the Subscribers under the Capital Injection Agreements in proportion to their respective equity holdings are determined following arm's length negotiations with reference to the financial performance of Kunming Jida, based on the estimated net profit of RMB50.0 million for the year ended 31 December 2010 and an agreed price-earning multiple of 13 times before the Proposed Capital Injection and the future prospects of Kunming Jida. The Directors are of the view that the agreed price-earning multiple used is comparable to other companies engaged in the similar business and/or industry as the Disposed Group, on the basis of and with reference to the (i) then trading price-earning multiple of the Shares at approximately 13 times; and (ii) general price-earning multiples of other private companies invested by the PE in the pharmaceutical industry of the PRC.

LETTER FROM THE BOARD

Further Adjustments

Pursuant to the terms of the Capital Injection Agreements, if (i) the audited net profit after tax of Kunming Jida for its financial year ended 31 December 2010 is less than RMB50.0 million (equivalent to approximately HK\$58.8 million); and/or (ii) the audited consolidated net profit after tax of Kunming Jida for its financial year ending 31 December 2011 is less than RMB67.5 million (equivalent to approximately HK\$79.4 million), Kunming Jida will compensate the Subscribers for such shortfall in accordance with the terms stipulated in the Capital Injection Agreements. Such compensation, if necessary, shall be made at the discretion of Kunming Jida either in cash or by allotment of additional equity interest in Kunming Jida to the Subscribers. Pursuant to the Capital Injection Agreements, there is no cap or limit as to the percentage of the additional equity interest to be issued to the Subscribers thereunder. However, the Directors currently do not anticipate a material shortfall in Kunming Jida's net profit in 2010 which would result in material dilution of the Group's equity interest in Kunming Jida. Set out below is the mechanism showing how the compensation would be triggered in the event that the actual net profit after tax falls below the indicated amounts of RMB50.0 million and RMB67.5 million for the year ended/ending 31 December 2010 and 31 December 2011, respectively.

If the actual audited net profit after tax for the year ended 31 December 2010 is below RMB50.0 million, an adjustment will be made in either of the following manner with respect to each Subscriber:

Cash compensation to the Subscriber	Capital amount injected by the Subscriber	$= \frac{\text{Actual audited net profit after tax}}{\text{RMB50.0 million}} \times (1 - \frac{\text{Actual audited net profit after tax}}{\text{RMB50.0 million}})$
Equity compensation to the Subscriber	Upwards adjusted % of equity interest of the Subscriber in Kunming Jida immediately after the Capital Injection Completion	$= \frac{\text{Initial % of equity interest of the Subscriber in Kunming Jida immediately after the Capital Injection Completion}}{\text{Initial % of equity interest of the Subscriber in Kunming Jida immediately after the Capital Injection Completion}} \times \frac{\text{RMB50.0 million}}{\text{Actual audited net profit after tax}}$

LETTER FROM THE BOARD

If the actual audited consolidated net profit after tax for the year ending 31 December 2011 is below RMB67.5 million, a corresponding adjustment will be made in substantially the same manner as above, but based on (i) an adjusted percentage of equity interest of the Subscriber in Kunming Jida after any adjustment for the year ended 31 December 2010; and (ii) the actual audited consolidated net profit after tax for the year ending 31 December 2011.

The Shareholder Agreements

In connection with the Capital Injection Agreements, the Company, Jiwa Pharm and the Subscribers have also entered into two Shareholder Agreements, pursuant to which, the Company has agreed with the Subscribers that if Kunming Jida does not obtain a listing on a stock exchange within 48 months from the Capital Injection Completion Date, each of the Subscribers may, within six months from the expiry of such 48 months, request the Company to purchase such subscribers interest in Kunming Jida pursuant to the Proposed Capital Injection (subject to certain adjustments for cash compensation and profit distribution), plus a compound interest at an annual rate of 10% thereon. Based on the Directors' current estimate, the maximum monetary value under the Repurchase Obligation would be approximately RMB403.4 million (equivalent to approximately HK\$474.6 million). The Shareholder Agreements are conditional on the Capital Injection Completion. Further details are set out in the paragraph headed "Specific Mandate to issue new Shares" below.

The Directors currently anticipate that an application for listing on a stock exchange by Kunming Jida will only be made at least two years later, because of the lengthy preparation work. On this basis, the Directors consider that Practice Note 15 of the Listing Rules regarding spin-off will not be applicable to the proposed listing of Kunming Jida at that time. If this is not the case, the Company will comply with all the requirements under Practice Note 15 of the Listing Rules, where necessary.

Restructuring

In connection with the Capital Injection Agreements and conditional upon the Proposed Capital Injection, the Group, through Jiwa Rintech and Jiwa P&C, and, among others, Kunming Jida have after trading hours on 16 February 2011 entered into each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement in relation to the sale by the Group and the purchase by Kunming Jida, conditional upon the Capital Injection Completion, of (i) 100% effective equity interest in Jiangsu Jiwa at a cash consideration of not less than RMB60.0 million (equivalent to approximately HK\$70.6 million) and not more than RMB66.0 million

LETTER FROM THE BOARD

(equivalent to approximately HK\$77.6 million); and (ii) 93% effective equity interest in Yunnan Jiwa at a cash consideration of not less than RMB33.0 million (equivalent to approximately HK\$38.8 million) and not more than RMB37.0 million (equivalent to approximately HK\$43.5 million). Set out below is the agreed principal terms of each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement.

Composition of the board of directors of Kunming Jida

Prior to the Proposed Capital Injection, the board of directors of Kunming Jida comprised five directors, three of whom were appointed by Jiwa Pharm while the other two were appointed by Yunnan Pharm.

Upon the Capital Injection Completion, the board of directors of Kunming Jida will comprise six directors, of whom, Jiwa Pharm will appoint three and each of Yunnan Pharm, Warburg Pincus and Mr. Li (Kunming Jizhong) will have the right to appoint a director to the board of directors of Kunming Jida. The other two Subscribers, namely Panda and Mr. Yang, have no right to appoint any director to the board of directors of Kunming Jida upon the Capital Injection Completion.

The Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement

	The Jiangsu Jiwa Disposal Agreement	The Yunnan Jiwa Disposal Agreement
Date	: 16 February 2011	16 February 2011
Vendors	: Jiwa Rintech	Jiwa P&C
Purchaser	: Kunming Jida	Kunming Jida
Assets to be disposed of	: the 100% equity interest of Jiangsu Jiwa currently owned by Jiwa Rintech	the 93% equity interest of Yunnan Jiwa currently owned by Jiwa P&C

LETTER FROM THE BOARD

The Jiangsu Jiwa Disposal Agreement

Consideration : Not less than RMB60.0 million (equivalent to approximately HK\$70.6 million) and not more than RMB66.0 million (equivalent to approximately HK\$77.6 million), which was arrived at after arm's length negotiations between Jiwa Rintech and Kunming Jida (as the purchaser) and which will be finally determined with reference to the net asset value of Jiangsu Jiwa as at 28 February 2011 based on the asset valuation report (by using replacement cost method as the basis of valuation) concluded and issued by a qualified independent valuer in the PRC, plus a premium of not more than 15% thereof and its future prospects. The Jiangsu Jiwa Consideration is currently fixed at not less than RMB64.6 million (equivalent to approximately HK\$76.0 million), subject to finalisation, but in any event within the prescribed range above.

The Yunnan Jiwa Disposal Agreement

Not less than RMB33.0 million (equivalent to approximately HK\$38.8 million) and not more than RMB37.0 million (equivalent to approximately HK\$43.5 million), which was arrived at after arm's length negotiations between Jiwa P&C and Kunming Jida (as the purchaser) and which will be finally determined with reference to the net asset value of Yunnan Jiwa as at 28 February 2011 based on the asset valuation report (by using replacement cost method as the basis of valuation) concluded and issued by a qualified independent valuer in the PRC, plus a premium of not more than 10% thereof and its future prospects. The Yunnan Jiwa Consideration is currently fixed at not less than RMB35.5 million (equivalent to approximately HK\$41.8 million), subject to finalisation, but in any event within the prescribed range above. The asset valuation of Yunnan Jiwa was approximately RMB54.7 million (equivalent to approximately HK\$64.4 million) as at 28 February 2011, of which, the balance of accounts receivables of approximately RMB20.0 million under the balance sheet of Yunnan Jiwa had already been excluded from the determination of the Yunnan Jiwa Consideration. Hence, the net asset valuation of RMB34.7 million (equivalent to approximately HK\$40.8 million) had been taken into account for determination of the Yunnan Jiwa Consideration.

LETTER FROM THE BOARD

The Jiangsu Jiwa Disposal Agreement

The Jiangsu Jiwa Consideration shall be settled in cash in two instalments: (i) first instalment to be payable within 10 working days from the date of the Capital Injection Completion Date; and (ii) the remaining balance thereof to be payable within 30 working days upon Jiangsu Jiwa Completion.

The Yunnan Jiwa Disposal Agreement

The Yunnan Jiwa Consideration shall be settled in cash in two instalments: (i) first instalment to be payable within 10 working days from the date of the Capital Injection Completion Date; and (ii) the remaining balance thereof to be payable within 30 working days upon Yunnan Jiwa Completion.

Given both the Jiangsu Jiwa and Yunnan Jiwa are asset-based companies engaging in manufacturing and/or trading of pharmaceutical products, the Directors are of the view that the replacement cost method adopted in the asset valuation reports is appropriate for the purpose of evaluating the net assets of each of Jiangsu Jiwa and Yunnan Jiwa. The Directors further consider that the terms of each of the Capital Injection Agreements, the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement were concluded by the parties after arm's length negotiations, are fair and reasonable and are on normal commercial terms and the entering into of all such agreements are in the interests of the Company and the Shareholders as a whole.

CONDITIONS PRECEDENT

The Capital Injection Completion is subject to fulfillment of the following conditions:

- (i) the board of directors of Kunming Jida having passed resolution(s) approving the Capital Injection Agreements;
- (ii) Yunann Pharm having obtained the approval from 中國相關國有資產監督管理部門 (the State-owned Assets Supervision and Administration Commission of the State Council) of the PRC in relation to the Proposed Capital Injection or a written confirmation confirming that no such approval is required;
- (iii) the Capital Injection Agreements, the joint venture contract and the articles of association of Kunming Jida or any such other related documents having approved by the relevant regulatory authorities in accordance with the requirements under the relevant laws and regulations;

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- (iv) the Shareholders having passed the resolution(s) at the SGM approving the Proposed Capital Injection, Jiangsu Jiwa Disposal and Yunnan Jiwa Disposal and the transactions contemplated thereunder in accordance with the Listing Rules;
- (v) if necessary, the relevant party having obtained all relevant approvals from any regulatory authorities in Hong Kong (including but not limited to the Stock Exchange) in respect of the Proposed Capital Injection and the Capital Injection Agreements;
- (vi) there has been no unconcluded litigation proceedings in relation to Kunming Jida which have a material adverse effect on the Proposed Capital Injection and the Capital Injection Agreements; and
- (vii) the representations, warranties and undertakings given by each of the existing equity-holders of Kunming Jida and Kunming Jida itself in the Capital Injection Agreements remaining true, accurate, complete and not being misleading.

Apart from the above conditions (vi) and (vii), no other conditions can be waived by the Subscribers. If any of the conditions precedent are not fully fulfilled (or waived as to (vi) and (vii) by the relevant Subscriber) before 30 April 2011, the rights and obligations of the parties under the relevant Capital Injection Agreement shall lapse and be of no further effect, in which event the parties to the relevant Capital Injection Agreement shall be released from all further obligations thereunder without any liability save as to any antecedent breach. The Company expects that the Capital Injection Completion Date will be on or before 30 April 2011.

As at the Latest Practicable Date, condition (i) above had been fulfilled.

Conditions precedent of each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement

The Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement are subject to the following conditions:

- (i) each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement or any such other related documents having approved by the relevant regulatory authorities in accordance with the requirements under the relevant laws and regulations;

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- (ii) the Shareholders having passed the resolution at the SGM approving the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;
- (iii) if necessary, the relevant party having obtained all relevant approvals from any regulatory authorities in Hong Kong (including but not limited to the Stock Exchange) in respect of each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement;
- (iv) there has been no inconclusive litigation in relation to each of Jiangsu Jiwa and Yunnan Jiwa with material adverse effect on each of the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement; and
- (v) the representations, warranties and undertakings given by each of the Jiwa Rintech, Jiangsu Jiwa, Jiwa P&C and Yunnan Jiwa in the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement remaining true, accurate, complete and not being misleading.

If any of the conditions precedent is not fully fulfilled (or waived as to (iv) and (v) by Kunming Jida) before 30 April 2011, the rights and obligations of the parties under each of the Jiangsu Jiwa Disposal Agreement and Yunnan Jiwa Disposal Agreement shall lapse and be of no further effect, in which event the parties shall be released from all further obligations thereunder without any liability save as to any antecedent breach.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

The Capital Injection Completion is not conditional upon the Jiangsu Jiwa Completion and/or the Yunnan Jiwa Completion. Both of the Jiangsu Jiwa Completion and Yunnan Jiwa Completion are conditional upon the Capital Injection Completion. Completion of each of the Capital Injection Agreements is not conditional upon the completion of the other.

COMPLETION

It is currently expected that the Capital Injection Completion Date will take place on or before 30 April 2011, while each of the Jiangsu Jiwa Completion Date and Yunnan Jiwa Completion Date will only take place thereafter.

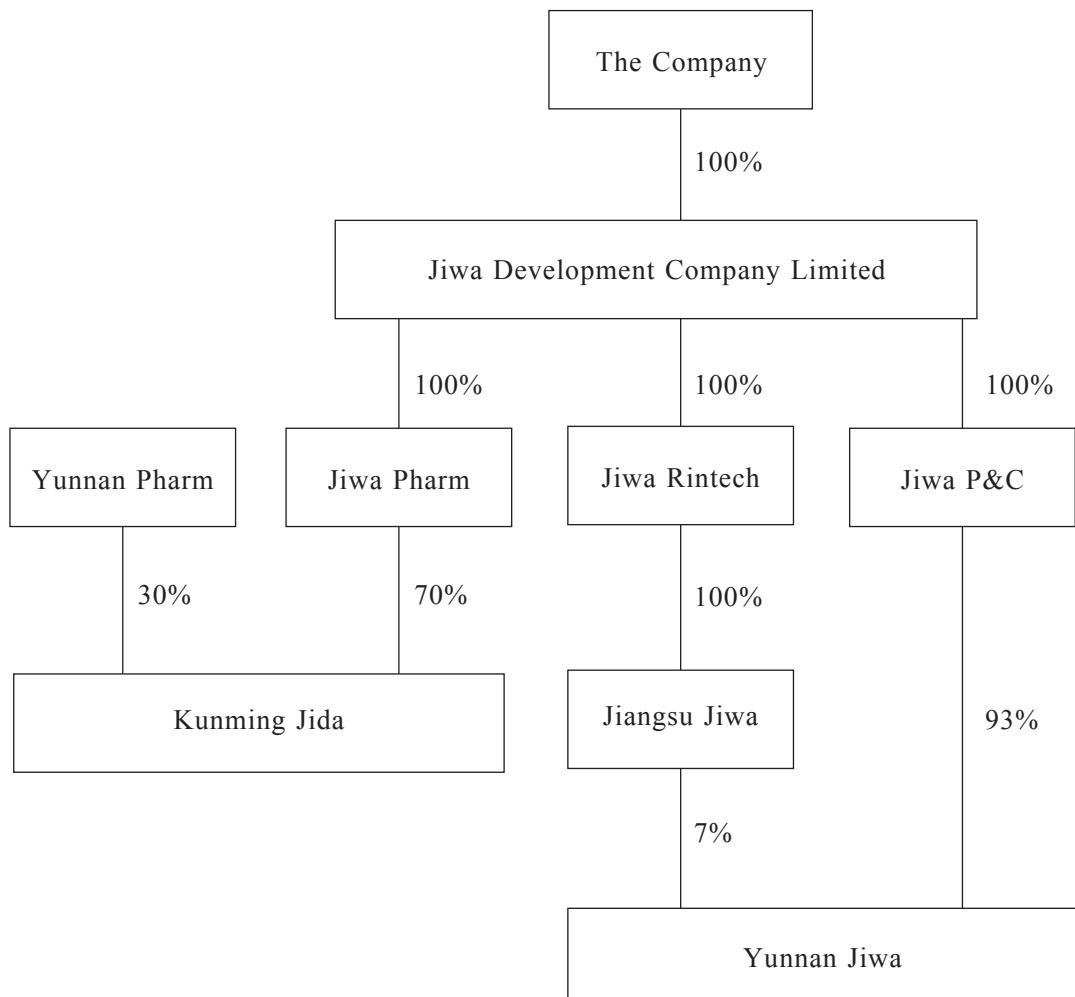
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Each of the Vendors and Kunming Jida shall comply with all the applicable procedures relating to capital injection, transfer and/or registration (the “**Applicable Procedures**”) under the PRC laws and regulations to enable the equity interest in each of Jiangsu Jiwa and Yunnan Jiwa held by the Vendors to be transferred to Kunming Jida upon the Jiangsu Jiwa Completion and the Yunnan Jiwa Completion and shall procure to complete all the Applicable Procedures as soon as possible. The Jiangsu Jiwa Completion and the Yunnan Jiwa Completion shall take place upon fulfillment of all the Applicable Procedures.

SHAREHOLDING STRUCTURE OF THE GROUP

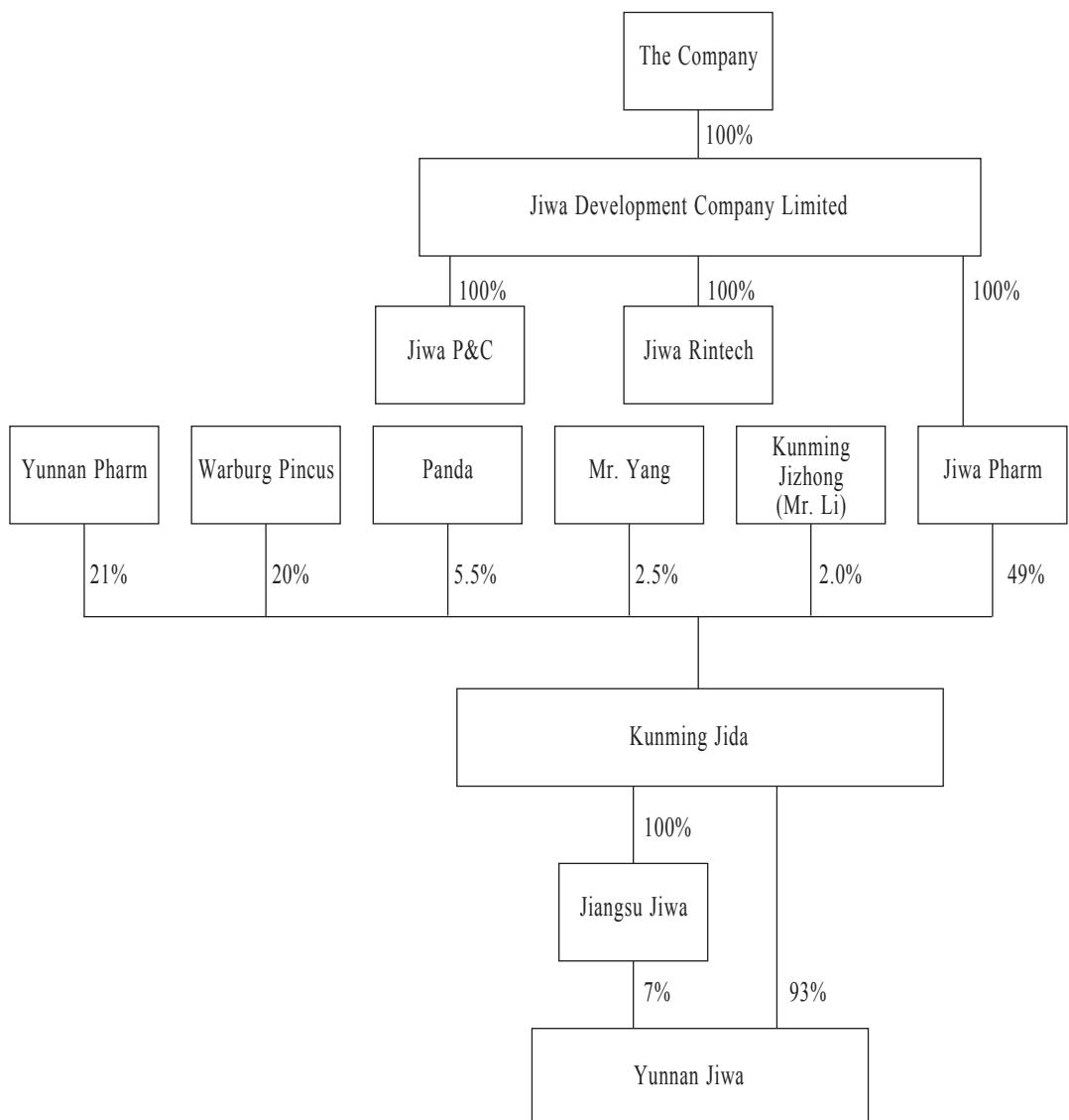
Set out below is a simplified corporate chart showing the corporate relationship among the Group and the Subscribers immediately before and after the Disposal:

Immediately before the Disposal



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Immediately after the Disposal



FINANCIAL EFFECT OF THE DISPOSAL

It is currently expected that a net gain on the Disposal of approximately RMB144.7 million (equivalent to approximately HK\$170.2 million) (subject to finalisation of audit) can be recognised in the consolidated financial statements of the Group for the year ending 31 March 2011. The expected net gain on the deemed disposal of Kunming Jida is calculated on the basis of 49% of the estimated fair value of Kunming Jida after the Proposed Capital Injection, after deduction of (i) the book value of investment in Kunming Jida recorded by the Group; and (ii) the estimated provision for the profit shortfall arrangement under the Capital Injection Agreements and the Repurchase Obligation under the two Shareholder Agreements. The expected

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gains on the Jiangsu Jiwa Disposal and Yunnan Jiwa Disposal are calculated on the assumption that the consideration are RMB64.6 million and RMB35.5 million less the book value of investments in Jiangsu Jiwa and Yunnan Jiwa by the Group, respectively.

Kunming Jida is currently a 70% non-wholly owned subsidiary of the Group; while each of Jiangsu Jiwa and Yunnan Jiwa is a wholly-owned subsidiary of the Company. The financial results and positions of each of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa have been included in the consolidated financial statements of the Group. Upon the Completion, each of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa will cease to be a subsidiary of the Company, while (i) Kunming Jida will become a 49% owned jointly controlled entity of the Group; and (ii) each of Jiangsu Jiwa and Yunnan Jiwa will become a wholly-owned subsidiary of Kunming Jida. On such basis, the financial results of Kunming Jida (together with each of Jiangsu Jiwa and Yunnan Jiwa) will be equity-accounted for in the consolidated financial statements of the Group as to a 49% equity interest. As a result, the operating performance and financial position of each of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa will then be de-consolidated from the consolidated financial statements of the Group after the Completion. On the other hand, the operating performance and financial position of each of Jiangsu Jiwa and Yunnan Jiwa will in turn be fully consolidated into the consolidated financial statements of Kunming Jida.

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix V to this circular, the financial effects of the Disposal on the Group are as follows:

- the Group's total assets would decrease by approximately HK\$29.1 million from approximately HK\$797.3 million to HK\$768.2 million, while its total liabilities would decrease by approximately HK\$91.3 million from approximately HK\$309.0 million to HK\$217.7 million as if the Disposal had been completed on 30 September 2010; and
- the Group's net profit would significantly increase by approximately HK\$146.2 million from the net profit for the year ended 31 March 2010 of approximately HK\$81.6 million to approximately HK\$227.8 million which is calculated based on (i) the exclusion of the net profit of the Disposed Group for the year ended 31 March 2010 of approximately HK\$27.8 million; and (ii) the inclusion of the estimated gain on the Disposal of HK\$170.2 million, after deducting certain expenses incidental to the Disposal as if the Disposal had been completed on 1 April 2009.

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EXPECTED IMPACT OF THE DISPOSAL ON THE BUSINESS AND FINANCIAL POSITION OF THE GROUP

Based on the Directors' estimate after recognition of an expected gain on the Disposal of approximately RMB144.7 million in the consolidated financial statements of the Group for the year ending 31 March 2011, the Group's scale of operation in terms of revenue would inevitably be reduced by a greater extent given that the operating results of each of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa would be de-consolidated from the consolidated financial statements of the Group, and their operating results and financial positions would then be equity-accounted for as to a 49% equity interest thereafter. In the circumstances, the Board currently believes that the Disposal would not have any material adverse impact to the business and financial position of the Group.

The Group has commenced its trading business of pharmaceutical products since 1987. The Group is currently principally engaged in the manufacturing and sale of pharmaceutical products in the PRC; and the trading of pharmaceutical and health products.

Based on the Company's annual report for the year ended 31 March 2010, the revenue contributed from the three Group's business segments, namely Finished drugs (also known as Pharmaceutical products), Distribution business and Pharmaceutical bulk materials, attributable to the Disposal amounted to approximately HK\$284.4 million, HK\$183.9 million and HK\$2.5 million, which accounted for approximately 44.7%, 28.9% and 0.4% of its total revenue of approximately HK\$636.5 million respectively. The Group's remaining business, namely the trading of pharmaceutical and health care products (the "**Remaining Business**"), will be retained and continue to be operated by the Group following the Disposal, segment revenue, results and total assets of which amounted to approximately HK\$165.7 million, HK\$29.3 million and HK\$107.5 million, representing approximately 26.0%, 30.2% and 14.6% of the Group's total revenue, results and assets respectively for the same period. During the year ended 31 March 2010, the Remaining Business acting as a trading agent for European pharmaceutical products had 29 employees and was mainly trading in gastro-intestinal and musculo-skeletal products with their major markets in Hong Kong and the PRC.

Based on the Company's interim report for the six months ended 30 September 2010, the revenue contributed from the Group's three business segments, namely Finished drugs (also known as Pharmaceutical products), Distribution business and Pharmaceutical bulk materials, attributable to the Disposal amounted to

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approximately HK\$191.1 million, HK\$106.1 million and HK\$0.7 million, which accounted for approximately 49.0%, 27.2% and 0.2% of its total revenue of approximately HK\$389.7 million respectively. The segment revenue and results of the Remaining Business amounted to approximately HK\$91.8 million and HK\$18.8 million; representing approximately 23.6% and 37.2% of the Group's total revenue and results respectively for the same period. During the six months ended 30 September 2010, the Remaining Business acting as a trading agent for European pharmaceutical products had 29 employees and was mainly trading in gastro-intestinal and musculo-skeletal products with their major markets in Hong Kong and the PRC.

Based on the above preliminary estimate on the business and financial position of the Group as well as the Remaining Group, the Board considers that the Company would still have sufficient level of operations and assets after the Disposal, and therefore is able to fulfill the requirement under Rule 13.24 of the Listing Rules.

INFORMATION ON KUNMING JIDA

Kunming Jida is a sino-foreign owned enterprise established under the laws of the PRC on 14 August 1993 with limited liability, and has a registered and paid up capital of RMB132,334,000 (equivalent to approximately HK\$155.7 million). As at the Latest Practicable Date, Kunming Jida is beneficially owned as to (i) 70% by Jiwa Pharm; and (ii) 30% by Yunnan Pharm. Kunming Jida is a non-wholly-owned subsidiary of the Company. Kunming Jida is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC.

Based on the audited financial statements prepared in accordance with the HK GAAP, the net profit before and after taxation for the year ended 31 March 2009 of Kunming Jida were approximately RMB37.1 million (equivalent to approximately HK\$43.6 million) and RMB34.9 million (equivalent to approximately HK\$41.1 million) respectively; while its net profit before and after taxation for the year ended 31 March 2010 were approximately RMB57.1 million (equivalent to approximately HK\$67.2 million) and RMB50.4 million (equivalent to approximately HK\$59.3 million) respectively. Based on the audited financial statements of Kunming Jida prepared in accordance with the HK GAAP, the net asset value of Kunming Jida was approximately RMB216.0 million (equivalent to approximately HK\$254.1 million) as at 31 March 2010.

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INFORMATION ON JIANGSU JIWA

Jiangsu Jiwa is a wholly foreign-owned enterprise established under the laws of the PRC on 21 November 2003 with limited liability, and has both the registered and paid up capital of RMB73.0 million (equivalent to approximately HK\$85.9 million). As at the Latest Practicable Date, Jiangsu Jiwa is indirectly wholly-owned by the Company, and has been principally engaged in the manufacturing and sale of pharmaceutical bulk materials in the PRC.

Based on the audited financial statements prepared in accordance with the HK GAAP, both the net loss before and after taxation for the year ended 31 March 2009 of Jiangsu Jiwa were approximately RMB8.0 million (equivalent to approximately HK\$9.4 million); while both the net loss before and after taxation for the year ended 31 March 2010 were approximately RMB3.9 million (equivalent to approximately HK\$4.6 million). Based on the audited financial statements of Jiangsu Jiwa prepared in accordance with the HK GAAP, the net asset value of Jiangsu Jiwa was approximately RMB39.4 million (equivalent to approximately HK\$46.4 million) as at 31 March 2010.

INFORMATION ON YUNNAN JIWA

Yunnan Jiwa is a sino-foreign owned enterprise established under the laws of the PRC on 9 February 2002 with limited liability, and has both registered and paid up capital of US\$2.1 million (equivalent to approximately HK\$16.4 million). As at the Latest Practicable Date, Yunnan Jiwa is indirectly wholly-owned by the Company, and has been principally engaged in the sale of pharmaceutical products in the PRC.

Based on the audited financial statements prepared in accordance with the HK GAAP, the net profit before and after taxation for the year ended 31 March 2009 of Yunnan Jiwa were approximately RMB3.7 million (equivalent to approximately HK\$4.3 million) and RMB3.3 million (equivalent to approximately HK\$3.9 million) respectively; while its net profit before and after taxation for the year ended 31 March 2010 were approximately RMB2.5 million (equivalent to approximately HK\$2.9 million) and RMB1.5 million (equivalent to approximately HK\$1.7 million) respectively. Based on the audited financial statements of Yunnan Jiwa prepared in accordance with the HK GAAP, the net asset value of Yunnan Jiwa was approximately RMB5.8 million (equivalent to approximately HK\$6.6 million) as at 31 March 2010.

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INFORMATION ON THE VENDORS

Jiwa Rintech is a company incorporated in the British Virgin Islands with limited liability on 8 December 2004 and an indirect wholly-owned subsidiary of the Company, which in turn is the immediate holding company holding 100% equity interest in Jiangsu Jiwa. Jiwa Rintech is an investment holding company with authorized and issued share capital of US\$50,000 and US\$10 respectively.

Jiwa P&C is a company incorporated in Hong Kong with limited liability on 16 October 1987 and an indirect wholly-owned subsidiary of the Company, which in turn is the immediate holding company holding 93% equity interest in Yunnan Jiwa. Jiwa P&C is an investment holding company with authorized and issued share capital of HK\$1,000,000.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC, and trading of European pharmaceutical products.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Kunming Jida is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC.

The Board considers that the Proposed Capital Injection will 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. The Board further considers that both the Jiangsu Jiwa Disposal and the Yunnan Jiwa Disposal will enhance the streamlining of the pharmaceutical platform of the Group under Kunming Jida, facilitate its brand building, increase operational efficiency as well as facilitate further expansion. Immediately following the Completion, the Group itself will, on the one hand, focus on its existing business activities in trading of pharmaceutical products and health care products in Hong Kong; while on the other hand, share the operating results of the sub-group of jointly controlled entities of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa in the PRC.

In respect of the strategic investment by the PE Investor, the Directors are of the view that the proposed introduction of the PE Investor as a substantial shareholder holding 20% equity interest in Kunming Jida as enlarged by the Proposed Capital Injection can enable the Company to: (i) secure a premier long-term partner with

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strategic interest in Kunming Jida; (ii) benefit from the extensive experience, expertise and business connections of the PE Investor by having them participate in the board of directors and management of Kunming Jida on the basis that it has in-depth investment experience for over 35 years in the medical treatment and health care industries comprising a number of well-known healthcare and pharmaceutical companies in the PRC, which could assist Kunming Jida and the Disposed Group to further develop its product platform; and (iii) raise funding for, among others, the expansion of Kunming Jida's production capacity and future business development.

The Board also considers that it will be in the interests of the Company and the Shareholders as a whole to secure the long-term commitment and contribution of certain key staff members to the Group through their participation as shareholders of Kunming Jida when the Proposed Capital Injection is successfully completed, which will be significant to the continuous growth and development of Kunming Jida. On this basis, certain key management staff of Kunming Jida and other subsidiaries of the Group, such as Mr. Shek and Ms. Luo, were invited to participate in this round of fund raising. This also serves as a recognition of their past contribution to the Group.

The Group will not have an absolute majority interest in Kunming Jida following the Capital Injection Completion. In this regard, the Group will not be able to secure the passing of resolutions that only require simple 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 the Completion. As such, the Board does not foresee that the Group's loss of its 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 its absolute majority interest in Kunming Jida. The Group has no present intention to further dispose of or dilute its interest in Kunming Jida.

In addition, disregarding the possible one-off gain on the 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 in the future.

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The Board currently estimates that the 21% dilution of the Group's equity interest 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 Capital Injection Completion Date; and (ii) the estimated fair value of Kunming Jida as enlarged by the proceeds from the Proposed Capital Injection corresponding to the Group's interest in it as a jointly controlled entity. Such gain on dilution results from the accounting treatment under the HK GAAP but has no practical adverse impact on the financial, trading or operational conditions of the Group.

In view of the above, the Directors are of the view that the terms of each of the Capital Injection Agreements, the Jiangsu Jiwa Disposal Agreement and the Yunnan Jiwa Disposal Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Group has no present intention to effect any substantive change to its existing business and the composition of the Board after Completion. Further, the Group has not entered into and has no present plan to enter into any agreement, arrangement, understanding or negotiation on disposal of any subsidiary, existing business or major assets of the Group. Besides, the Board currently does not have any intention or arrangement to inject new business or assets into the Group.

USE OF PROCEEDS

Kunming Jida intends to apply the net proceeds of the Proposed Capital Injection as follows: (i) not more than RMB103.0 million (or equivalent to approximately HK\$121.2 million) acquisition of the entire equity interest of Jiangsu Jiwa and Yunnan Jiwa from the Group; (ii) approximately RMB42.0 million (or equivalent to approximately HK\$49.4 million) will be applied to the repayment of shareholders' loan owed by Kunming Jida to its existing shareholders; (iii) approximately RMB97.0 million (or equivalent to approximately HK\$114.1 million) will be applied to the distribution of any distributable profits by way of dividends to the existing shareholders of Kunming Jida prior to the Capital Injection Completion; and (iv) the remaining balance of approximately RMB33.5 million (or equivalent to approximately HK\$39.4 million) or more will be applied as general working capital.

Upon receipt of such repayment of shareholders' loan and distribution by Kunming Jida amounting to approximately RMB127.0 million, the Group may consider to apply such cash resources for (i) payment of a special dividend to the Shareholders (subject to their approval at a general meeting); (ii) further enhancement for its

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research and development projects in the Remaining Group; (iii) repayment of bank loans; and (iv) mergers and/or acquisitions for health care businesses when appropriate business opportunities as considered by the Board arise. However, the Group currently has no concrete or immediate plan for such applications for the time being.

The net proceeds of approximately RMB103 million from the Jiangsu Jiwa Disposal and Yunnan Jiwa Disposal will be utilised by the Group as its general working capital.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Kunming Jida is an indirect non-wholly-owned subsidiary of the Company. Upon the Capital Injection Completion and allotment of the equity interest to the Subscribers by Kunming Jida under the Capital Injection Agreements, the Group's equity interest in Kunming Jida will be diluted from 70% to 49%, representing a decrease of 21% of the registered and paid-up capital of Kunming Jida as enlarged by the Capital Injection Completion. Such decrease of 21% equity interest in the enlarged registered and paid up capital of Kunming Jida constitutes a deemed disposal by the Company under Rule 14.29 of the Listing Rules. As the applicable percentage ratio exceeds 25% but less than 75%, the Proposed Capital Injection itself constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

For the Jiangsu Jiwa Disposal itself, as the applicable percentage ratios exceed 5% but are less than 25%, it would constitute a discloseable transaction for the Company pursuant to Chapter 14 of the Listing Rules.

For the Yunnan Jiwa Disposal itself, as the applicable percentage ratios exceed 25% but are less than 75%, it would constitute a major transaction for the Company pursuant to Chapter 14 of the Listing Rules.

However, pursuant to Rule 14.22 of the Listing Rules, both of the Jiangsu Jiwa Disposal and Yunnan Jiwa Disposal are to be aggregated with the Proposed Capital Injection. When aggregated, the applicable percentage ratios of the Disposal exceed 75%, and the Disposal would constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules and subject to announcement and shareholder approval requirements.

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Mr. Shek is a director of certain subsidiaries of the Company, who will invest HK\$3.0 million in the Proposed Capital Injection through Panda, representing approximately 5.1% of the full amount of RMB50,070,000 (or equivalent to approximately HK\$58.9 million) to be injected by Panda into Kunming Jida. Mr. Shek will hold less than 30% interest in the issued share capital of Panda, and therefore Panda is not an associate of Mr. Shek. Accordingly, Mr. Shek's investment through Panda in the Proposed Capital Injection shall not be regarded as a connected transaction under Chapter 14A of the Listing Rules, notwithstanding his directorships in certain subsidiaries of the Company.

Ms. Luo is a director of a subsidiary of the Company, who will invest HK\$2.0 million in the Proposed Capital Injection through Kunming Jizhong an investment vehicle formed by Mr. Li, representing approximately 9.2% of the full amount of RMB18,570,000 (or equivalent to approximately HK\$21.8 million) to be injected by Kunming Jizhong into Kunming Jida. Ms. Luo will hold less than 30% interest in the issued share capital of Kunming Jizhong, and therefore Kunming Jizhong is not an associate of Ms. Luo. Accordingly, Ms. Luo's investment through Kunming Jizhong in the Proposed Capital Injection shall not be regarded as a connected transaction under Chapter 14A of the Listing Rules, notwithstanding her directorship in a subsidiary of the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, neither Mr. Shek nor Ms. Luo, being one of the beneficial owners of the Subscribers, was interested in any Shares as at the Latest Practicable Date.

Based on the above, Mr. Shek and Ms. Luo have material interest in one of the Capital Injection Agreements and the transactions contemplated thereunder, and therefore will be required to abstain from voting to approve the Disposal and the Specific Mandate at the SGM.

Saved as disclosed above and so far as the Directors are aware after making reasonable enquiries, none of the Subscribers and their respective associates is a Shareholder as at the Latest Practicable Date and would be required to abstain from voting at the forthcoming SGM to be convened for the purpose of considering, and if thought fit, approving each of the Proposed Capital Injection, the Jiangsu Jiwa Disposal and the Yunnan Jiwa Disposal under the Agreements and the transactions contemplated thereunder. Besides, to the best of the Directors' knowledge and belief after making reasonable enquires, as at the Latest Practicable Date, none of the Shareholders has a material interest in the Disposal and the Specific Mandate and therefore will be required to abstain from voting at the forthcoming SGM.

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2. SPECIFIC MANDATE TO ISSUE NEW SHARES

In conjunction with the Capital Injection Agreements, the Company, Jiwa Pharm and the Subscribers have also entered into two Shareholder Agreements, pursuant to which the Company has agreed with the Subscribers that if Kunming Jida does not obtain a listing on a stock exchange within 48 months from the Capital Injection Completion Date, each of the Subscribers may, within six months from the expiry of such 48 months, require the Company to repurchase such Subscriber's equity interest in Kunming Jida within 60 days thereafter at a purchase price equal to the amount of such Subscriber's capital injection pursuant to the Proposed Capital Injection (subject to certain adjustments), plus a compound interest at an annual rate of 10% thereon. During the course of negotiations between the Group and the Subscribers prior to the entering into of the Capital Injection Agreements, the relevant contracting parties, based on their investment practice and past experience, have taken into account, including but not limited to, the following factors: (i) the historical operating and financial performance as well as the future prospects of the three businesses subject to the Disposal; (ii) the Group's financial resources and alternative choice of potential investors; (iii) the overall business prospects of the pharmaceutical industry in the PRC; (iv) the Subscribers' expected investment return and risk consideration in comparison with other possible investment opportunities; and (v) the foreseeable and increasing inflationary pressure in the coming few years, particularly in the PRC, as a result of the quantitative easing policies in money supply adopted by the governments in the PRC, the United States of America and a number of European countries since the outspread of financial tsunami in late 2008. In such circumstances, the Directors are of the view that the mechanism for determining the repurchase price of the Subscribers' equity interest in Kunming Jida at their respective capital injection amount plus 10% compound interest is appropriate, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. However, the Company has the absolute discretion to satisfy the Repurchase Obligation, either by cash payment or by allotment and issue of new Shares to the Subscribers (if the Directors consider appropriate), or a combination of both as the Directors think fit at the relevant time. Based on the Directors' current estimate, the maximum monetary value under the Repurchase Obligation would be approximately RMB403.4 million (equivalent to approximately HK\$474.6 million). The issue price of such new Shares shall be (i) at a 10% discount to the weighted average closing price of the Shares within the past three months prior to the date of notice given by the Subscribers to request for the Repurchase Obligation; or (ii) at a price of HK\$0.65 per Share, whichever is the higher. A further announcement will be made on the exercise of the right of the Subscribers to require the Company to fulfill its Repurchase Obligation.

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Under the two Shareholder Agreements, upon the exercise by any Subscriber of its right to require the Company to purchase such Subscriber's interest in Kunming Jida as described above, the Company may elect, in its absolute discretion, to pay the relevant purchase price in cash, in new Shares or any combination thereof. In order to facilitate payment by the Company of such purchase price in Shares, if it elects to do so in its absolute discretion, to fulfill the Repurchase Obligation, the Directors are now seeking the Shareholders' approval to grant a specific mandate to allot and issue a maximum number of 241,500,000 new Shares to the Subscribers (where the Directors consider appropriate), representing 15% of the issued share capital of the Company as at the Latest Practicable Date, at a minimum issue price of HK\$0.65 per Share. The minimum issue price of HK\$0.65 per Share represents:

- (i) a premium of approximately 30.0% over the closing price of the Shares of HK\$0.500 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 29.0% over the average of the closing prices of approximately HK\$0.504 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 29.2% over the average of the closing prices of approximately HK\$0.503 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 58.5% over the closing price of the Shares of HK\$0.410 per Share as quoted on the Stock Exchange as at the Latest Practicable; and
- (v) a premium of approximately 156.9% over the unaudited consolidated net asset value of the Group of approximately HK\$0.253 per Share as at 30 September 2010 based on the unaudited interim report of the Company for the six months ended 30 September 2010.

The minimum issue price of HK\$0.65 per new Share was arrived at after arm's length negotiation between the Company, Jiwa Pharm and the Subscribers taking into account the prevailing trading prices of the Shares when the Capital Injection Agreements were entered into.

Based on the closing price of HK\$0.500 per Share as quoted on the Stock Exchange on the Last Trading Day, the total value of the maximum number of new Shares that can be allotted and issued is approximately HK\$120.8 million.

LETTER FROM THE BOARD

The new Shares that can be allotted and issued under the Specific Mandate, comprising 241,500,000 Shares, represent (i) 15% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 13.0% of the issued share capital of the Company as enlarged by the allotment and issue of the maximum number of such new Shares. The Specific Mandate will become effective immediately after the 48 months from the Capital Injection Completion Date and can only be exercised in the event that Kunming Jida does not obtain a listing on a stock exchange within 48 months from the Capital Injection Completion Date, and will be valid for a period of nine months after the expiry of such 48 months. The Company confirms that the relevant shares will only be issued to the Subscribers, and will not be issued to any connected persons of the Company.

The new Shares being allotted and issued under the Specific Mandate, will rank pari passu in all respects with the then existing Shares in issue. There will be no restriction on the subsequent sale of the new Shares. An application will be made by the Company to the Stock Exchange for the listing of and permission to deal in such new Shares to be issued upon exercise.

REASONS FOR AND BENEFITS OF THE SPECIFIC MANDATE

If considered appropriate and necessary, the Directors will allot and issue the new Shares to the Subscribers under the Specific Mandate proposed to be sought from the Shareholders at the SGM.

The Directors would like to clarify that the sole purpose of the Specific Mandate is to provide a buffer to the Company, and to authorize the Directors when they consider necessary and appropriate, to satisfy the Repurchase Obligation through issue of new Shares in addition to a general mandate in relation to 20% of the issued share capital of the Company that the Directors may exercise from time to time.

The Directors currently are not certain whether the Repurchase Obligation would be triggered; and if necessary, in what manner (i.e. by cash payment and/or allotment and issue of new Shares) the Repurchase Obligation would be satisfied. Nevertheless, the Company will not satisfy the Repurchase Obligation by allotment and issue of new Shares which would otherwise result in a change of control of the Company. Besides, the Directors will not allot and issue new Shares under the Specific Mandate which would result in the public float of the Company falling below the requirement under the Listing Rules. The Directors consider that the Specific Mandate will only provide more flexibility to the Company to satisfy the Repurchase Obligation (if it arises), and therefore is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

CHANGES ON SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon full utilisation of the Specific Mandate (assuming no other Shares will be issued or repurchased by the Company):

	Issued Shares as at the Latest Practicable Date		Immediately upon full utilisation of the Specific Mandate	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Lau Yau Bor (<i>Note 1</i>)	83,808,000	5.21	83,808,000	4.53
Chan Hing Ming (<i>Note 2</i>)	40,752,000	2.53	40,752,000	2.20
LAUs Holding Co. Ltd. (<i>Note 3</i>)	840,000,000	52.17	840,000,000	45.37
WHYs Holding Co. Ltd. (<i>Note 4</i>)	105,000,000	6.52	105,000,000	5.67
MINGS Development Holdings Limited (<i>Note 5</i>)	<u>75,000,000</u>	<u>4.66</u>	<u>75,000,000</u>	<u>4.05</u>
	1,144,560,000	71.09	1,144,560,000	61.82
Shares which may be issued under the Specific Mandate	—	—	241,500,000	13.04
Current public Shareholders	<u>465,440,000</u>	<u>28.91</u>	<u>465,440,000</u>	<u>25.14</u>
Total	<u><u>1,610,000,000</u></u>	<u><u>100.00</u></u>	<u><u>1,851,500,000</u></u>	<u><u>100.00</u></u>

Notes:

1. These share are held by Mr. Lau Yau Bor, the chairman of the Company.
2. These share are held by Madam Chan Hing Ming, an executive Director.
3. These shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Mr. Lau Yau Bor, the chairman of the Company.
4. These shares are held by WHYs Holding Co. Ltd., the entire issued share capital of which is held by Mr. Lan Kin Tung, the vice chairman and chief executive officer of the Company.
5. These shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Madam Chan Hing Ming, an executive Director.

LETTER FROM THE BOARD

Further announcement will be made by the Company in compliance with the applicable requirements under the Listing Rules after any new Shares are issued under the Specific Mandate.

3. CHANGE OF AUDITORS

The Board also announces that JPB & Co (formerly Grant Thornton) (“GTHK”) has resigned as auditors of the Company with effect upon closing of the SGM. The Board proposes to appoint BDO Limited as the auditors of the Company to fill the casual vacancy following GTHK’s resignation and to hold office until the conclusion of the next annual general meeting of the Company subject to the approval by the Shareholders at the SGM to be convened.

It was noted that GTHK has merged its practice with that of BDO Limited, and will practice under the name of BDO Limited. The Board has been assured by BDO Limited that all the terms in respect of the provision of services to the Company by the merged practices will remain substantially unchanged. Based on such assurance, the Board has proposed to appoint BDO Limited as the auditors of the Company.

GTHK has confirmed in their resignation letter that there were no circumstances connected with their resignation which they consider should be brought to the attention of the Shareholders or creditors of the Company. The Board also confirms that there are no circumstances in connection with the change of auditors which they consider should be brought to the attention of the Shareholders.

RECOMMENDATION

The Directors consider that the terms of (i) the Disposal comprising the Proposed Capital Injection, Jiangsu Jiwa Disposal and Yunnan Jiwa Disposal pursuant to the Agreements; and (ii) the Specific Mandate to issue new Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Besides, the Directors also consider that the proposed change of auditors is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

LETTER FROM THE BOARD

THE SGM

A notice convening the SGM to be held at Conference Room 3, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong at 11:00 a.m. on Tuesday, 29 March 2011 for the purpose of considering and, if thought fit passing, with or without amendments, the ordinary resolutions to consider, and if thought fit, approve (i) the Disposal comprising the Proposed Capital Injection, Jiangsu Jiwa Disposal and Yunnan Jiwa Disposal pursuant to the Agreements, and the transactions contemplated thereunder (including the Repurchase Obligation); (ii) the Specific Mandate to issue new Shares; (iii) the change of auditors is set out on pages 113 to 116 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information in respect of the Company set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Jiwa Bio-Pharm Holdings Limited
Lau Kin Tung
Vice Chairman and Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three financial years ended 31 March 2010 respectively and for the six months ended 30 September 2010 have been set out in the Company's annual reports for each of the three financial years ended 31 March 2010 and its interim report for the six months ended 30 September 2010 dated 25 June 2008, 22 June 2009, 16 July 2010 and 25 November 2010 respectively. All of these financial statements have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.jiwa.com.hk.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP**For the six months ended 30 September 2010***Financial review*

For the six months ended 30 September 2010, the Remaining Group recorded approximately HK\$91.8 million revenue, representing an increase of approximately 27.9% when compared with that of approximately HK\$71.8 million for the corresponding period in the previous year. The gross profit of the Remaining Group for the six months ended 30 September 2010 amounted to approximately HK\$26.8 million with a gross profit margin of approximately 29.2% of its total revenue, whereas for the corresponding period in the previous year was approximately HK\$19.0 million and 26.5% respectively. The increase in the gross profit margin by approximately 2.7% from the six months ended 30 September 2009 to the six months ended 30 September 2010 was mainly due to the devaluation of EURO currency during the period.

The profit attributable to owners of the Remaining Group for the six months ended 30 September 2010 was approximately HK\$17.7 million with a net profit margin of approximately 19.3% of its total revenue, whereas the same for the corresponding period in the previous year was approximately HK\$12.7 million and 17.7% respectively. The increase in profit attributable to owners of the Remaining Group by approximately 1.6% from the six months ended 30 September 2009 to the six months ended 30 September 2010 was mainly due to the devaluation of EURO currency during the period.

The total bank loan and the cash balances of the Remaining Group as at 30 September 2010 were approximately HK\$68.0 million and HK\$40.3 million respectively, whereas the same as at 30 September 2009 were approximately HK\$15.5 million and HK\$28.1 million respectively. The increase in the bank loan of the Remaining Group was mainly due to the additional financing arrangements for the investments in Jiangsu Jiwa and the research and development projects conducted during the period.

There were no other significant fluctuations for the relevant period on the Remaining Group's balance sheet items.

Business review

During the six months ended 30 September 2010, the Remaining Group has been focusing on trading European pharmaceutical products in the PRC, the trading products are mainly the gastro-intestinal and musculo-skeletal drugs, revenue from which amounted to approximately HK\$91.8 million, representing an increase of approximately 27.9% when compared with that of approximately HK\$71.8 million for the corresponding period in the previous year.

The Group has commenced the trading business of European pharmaceutical products since 1987 and acted as the sole distributor of 4 foreign brand pharmaceutical products in the PRC market. These 4 foreign brand pharmaceutical products are the specialized drugs in Gastro-intestinal category and in Musculo-skeletal category. The market demand in PRC for these specialized drugs has experienced a stable growth in recent years.

The Group has entered the distribution agreements with the corresponding European suppliers for these trading pharmaceutical products. The Group has established a very long business relationship with these European suppliers in the past.

The increase in the revenue for the six month ended 30 September 2010 as compared to corresponding to the previous year was mainly due to the increase in demand for the products of Gluthion and Artrodar in PRC market, the major trading European pharmaceutical products in the Remaining Group. In recent years, the demand for reduced glutathione for injection in the PRC has been increasing. However, limited by the production capacity of the European suppliers, Gluthion encountered the situation of undersupply. As a result, the Remaining Group was unable to fully capitalize on the margin growth stimulated by the market growth. The pace of growth of the Remaining Group has been reined by the issues of shortage of Gluthion supply in the first half of the year, which are expected to normalize in the second quarter of 2011.

On the other hand, one of the major patented product Artrodar, for which the Remaining Group is the sole agent, has also experienced a satisfactory growth during the period. Our product specialists have conducted comprehensive academic promotion for this product over the past year in an effort of brand-building and prepared for the entry into the National Medical Reimbursement List.

Prospects

On 9 October 2010, the three ministries of the PRC, 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 of the pharmaceutical industry, 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 labour and coordinated development among the large enterprises and the small to medium enterprises.

In view of such encouraging business prospects in the pharmaceutical industry in the PRC, the Remaining Group will follow the State’s policy in the development towards “professionalism, expertise, specialization and innovation”.

Looking ahead, the Remaining Group will continue to develop its professional team for its trading business, and proactively accelerate its own development to fully leverage on the opportunities arising throughout the “ten golden years” brought by the national policies.

Liquidity, financial resources and capital structure

As at 30 September 2010, the Remaining Group held cash and cash equivalents of approximately HK\$20.4 million. Net current assets amounted to approximately HK\$149.1 million.

As at 30 September 2010, the Remaining Group had aggregate banking facilities of approximately HK\$201.4 million, of which, approximately HK\$83.4 million was utilized, as to approximately HK\$21.7 million in long term bank loans, as to approximately HK\$46.3 million in short term bank loans, and as to the balance of approximately HK\$15.4 million in letters of guarantee issued by the relevant banks to independent third parties. The interest rates of the Remaining Group's bank loans were within the range of Hong Kong Interbank Offered Rate (HIBOR) plus 0.5% to 2.75% per annum, while all such loans were denominated in Hong Kong dollars.

As at 30 September 2010, the Remaining Group had outstanding bank and other loans of approximately HK\$68.0 million, representing a gearing ratio of approximately 44.2% of its net asset value of approximately HK\$153.8 million.

Interest rate risk

In view of comparatively high RMB interest rates, the Remaining 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 six months ended 30 September 2010.

Foreign currency risk

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

Financial instrument for hedging purposes

During the six months ended 30 September 2010, the Remaining Group did not have any financial instruments for hedging purposes.

Credit risk

The Remaining Group has a pragmatic approach towards credit risk management. New customers are usually not allowed on credit, while 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 Remaining Group's sales staff and marketing agents pay regular visits to customers to promote its 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.

Charges on assets

As at 30 September 2010, bank loans amounted to approximately HK\$22.8 million were secured by certain assets of the Remaining Group (being the properties located at Unit 2906, Lippo Centre, Tower 1, Admiralty, Hong Kong) having a net book value of approximately HK\$6.8 million.

Material acquisitions and disposal of subsidiaries and associated companies

During the year ended 30 September 2010, the Remaining Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Future plans for material investments or capital assets

As at 30 September 2010, the Remaining Group did not have future plans for any material investments or capital assets.

Capital commitment

As at 30 September 2010, the Remaining Group had total commitment of approximately HK\$300,000 in respect of acquisition of property, plant and equipment.

Contingent liabilities

As at 30 September 2010, the Remaining Group has not provided any form of guarantees for any company outside the Remaining Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Employment and remuneration policy

As at 30 September 2010, the Remaining Group had a total of approximately 30 employees. The Remaining 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. The Remaining Group's staff costs for the year ended 30 September 2010 amounted to approximately HK\$3.7 million.

For the year ended 31 March 2010

Financial review

For the year ended 31 March 2010, the Remaining Group recorded approximately HK\$165.7 million revenue, representing a decrease of approximately 0.9% when compared with that of approximately HK\$167.2 million for the year ended 31 March 2009. The gross profit of the Remaining Group for the year ended 31 March 2010 amounted to approximately HK\$45.6 million with a gross profit margin of approximately 27.5% of its total revenue, whereas the same was approximately HK\$48.9 million and 29.2% respectively for the year ended 31 March 2009. The slight decrease in the gross profit margin by approximately 1.7% for the year ended 31 March 2010 when compared with that of the year ended 31 March 2009 was mainly due to the appreciation of EURO currency during the year.

The profit attributable to owners of the Remaining Group for the year ended 31 March 2010 amounted to approximately HK\$26.5 million with a net profit margin of approximately 15.7% of its total revenue, whereas the same was approximately HK\$28.8 million and 17.2% respectively for the year ended 31 March 2009. The slight decrease in profit attributable to owners of the Remaining Group by approximately 1.5% for the year ended 31 March 2010 when compared with that of the year ended 31 March 2009 was mainly due to the appreciation of EURO currency during the period.

There were no other significant fluctuations for the relevant period on the Remaining Group's balance sheet items.

Business review

During the year ended 31 March 2010, the Remaining Group has been focusing on the trading pharmaceutical products and health care products principally relating to gestro-intestinal and musculo-skeletal products, revenue from which amounted to approximately HK\$165.7 million, representing a decrease of approximately 0.9% when compared with that of approximately HK\$167.2 million for the year ended 31 March 2009.

The European pharmaceutical products distributed by the Remaining Group as an agent are mainly reduced glutathione for injection (Gluthion) and diacerein capsules (Artrodar). The slight decrease in the revenue this year as compared to last year was mainly due to the impact caused by the stock shortage of suppliers of Gluthion.

Prospects

The European pharmaceutical products distributed by the Group as an agent are mainly Gluthion and Artrodar. The sales of Gluthion decreased by approximately 17% when compared with that of the last year, which was mainly due to the impact caused by the stock shortage of supplier. During the year ended 31 March 2010, the rise of exchange rate for Euro led to an increase in purchase cost and a corresponding decrease of gross profit of the Remaining Group.

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

Liquidity, financial resources and capital structure

As at 31 March 2010, the Remaining Group held cash and cash equivalents of approximately HK\$14.0 million. Net current assets amounted to approximately HK\$138.0 million.

As at 31 March 2010, the Remaining Group had aggregate banking facilities of approximately HK\$154.1 million, of which, approximately HK\$51.2 million was utilized, as to approximately HK\$19.1 million in long term bank loans, as to approximately HK\$9.2 million in short term bank loans, and as to the balance of approximately HK\$22.9 million in letters of guarantee issued by the relevant banks to independent third parties. The interest rates of the Remaining Group's bank loans were within the range of Hong Kong Interbank Offered Rate (HIBOR) plus 0.5% to 2.75% per annum, while all such loans were denominated in Hong Kong dollars.

As at 31 March 2010, the Remaining Group had outstanding bank loans of approximately HK\$28.3 million, representing a gearing ratio of approximately 18.5% of its net asset value of approximately HK\$153.3 million.

Interest rate risk

In view of comparatively high RMB interest rates, the Remaining 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 year ended 31 March 2010.

Foreign currency risk

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

Financial instrument for hedging purposes

During the year ended 31 March 2010, the Remaining Group did not have any financial instruments for hedging purposes.

Credit risk

The Remaining Group has a pragmatic approach towards credit risk management. New customers are usually not allowed on credit, while 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 Remaining Group's sales staff and marketing agents pay regular visits to customers to promote its 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.

Charges on assets

As at 31 March 2010, bank loans amounted to approximately HK\$12.6 million were secured by certain assets of the Remaining Group (being the properties located at Unit 2906, Lippo Centre, Tower 1, Admiralty, Hong Kong) having a net book value of approximately HK\$6.8 million.

Material acquisitions and disposal of subsidiaries and associated companies

During the year ended 31 March 2010, the Remaining Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Future plans for material investments or capital assets

As at 31 March 2010, the Remaining Group did not have future plans for any material investments or capital assets.

Capital commitment

As at 31 March 2010, the Remaining Group had total commitment of approximately HK\$1.1 million in respect of acquisition of property, plant and equipment.

Contingent liabilities

As at 31 March 2010, the Remaining Group has not provided any form of guarantees for any company outside the Remaining Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Employment and remuneration policy

As at 31 March 2010, the Remaining Group had a total of approximately 32 employees. The Remaining 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. The Remaining Group's staff costs for the year ended 31 March 2010 amounted to approximately HK\$7.7 million.

For the year ended 31 March 2009***Financial review***

For the year ended 31 March 2009, the Remaining Group recorded approximately HK\$167.2 million revenue, representing an increase of approximately 19.7% when compared with that of approximately HK\$139.7 million for the year ended 31 March 2008. The gross profit of the Remaining Group for the year ended 31 March 2009 was approximately HK\$48.9 million with a gross profit margin of approximately 29.2% of its total revenue, whereas the same was approximately HK\$53.5 million

and 38.3% respectively for the year ended 31 March 2008. The decrease in the gross profit margin by approximately 9.1% for the year ended 31 March 2009 when compared with that of the year ended 31 March 2008 was mainly due to the change of the US dollar price to EURO price by the European suppliers and the appreciation of EURO currency during the year.

The profit attributable to owners of the Remaining Group for the year ended 31 March 2009 amounted to approximately HK\$28.8 million with a net profit margin of approximately 17.2% of its total revenue, whereas the same were approximately HK\$30.2 million and 21.6% respectively for the year ended 31 March 2008. The decrease in profit attributable to owners of the Remaining Group by approximately 4.4% for the year ended 31 March 2009 when compared with that of the year ended 31 March 2008 was mainly due to the change of the US dollar price to EURO price by the European suppliers and the appreciation of EURO currency during the year.

There were no other significant fluctuations for the relevant period on the Remaining Group's balance sheet items.

Business review

During the year ended 31 March 2009, the Remaining Group has been focusing on the trading pharmaceutical products principally relating to gastro-intestinal and musculo-skeletal products, revenue from which amounted to approximately HK\$167.2 million, representing a decrease of approximately 19.7% when compared with that of approximately HK\$139.7 million for the year ended 31 March 2008.

The European pharmaceutical products distributed by the Remaining Group as an agent are mainly reduced glutathione for injection (Gluthion) and diacerein capsules (Artrodar). The increase in the revenue this year as compared to last year was mainly due to the market growth in the PRC.

Prospects

The registration was completed in January 2009, and it was expected that the sales would return to an increasing trend in a short time. To capture the opportunities brought by the health care reform as promulgated by the Central Government, the Remaining Group would utilize its customer network in Europe built for years to expand the trading business actively. The Remaining Group would also speed up the introduction of best-selling products from the Europe and the United States.

Liquidity, financial resources and capital structure

As at 31 March 2009, the Remaining Group held cash and cash equivalents of approximately HK\$9.6 million. Net current assets amounted to approximately HK\$116.3 million.

As at 31 March 2009, the Remaining Group had aggregate banking facilities of approximately HK\$100.5 million, of which, approximately HK\$51.8 million was utilized, as to approximately HK\$16.5 million in long term bank loans, as to approximately HK\$11.4 million in short term bank loans, and as to the balance of approximately HK\$23.9 million in letters of guarantee issued by the relevant banks to independent third parties. The interest rates of the Remaining Group's bank loans were within the range of Hong Kong Interbank Offered Rate (HIBOR) plus 0.5% to 2.75% per annum, while all such loans were denominated in Hong Kong dollars.

As at 31 March 2009, the Remaining Group had outstanding bank loans of approximately HK\$27.9 million, representing a gearing ratio of approximately 19.7% of its net asset value of approximately HK\$141.3 million.

Interest rate risk

In view of comparatively high RMB interest rates, the Remaining 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 year ended 31 March 2009.

Foreign currency risk

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

Financial instrument for hedging purposes

During the year ended 31 March 2009, the Remaining Group did not have any financial instruments for hedging purposes.

Credit risk

The Remaining Group has a pragmatic approach towards credit risk management. New customers are usually not allowed on credit, while 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 Remaining Group's sales staff and marketing agents pay regular visits to customers to promote its 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.

Charges on assets

As at 31 March 2009, bank loans amounted to approximately HK\$22.1 million were secured by certain assets of the Remaining Group (being the properties located at Unit 2906, Lippo Centre, Tower 1, Admiralty, Hong Kong) having a net book value of approximately HK\$6.9 million.

Material acquisitions and disposal of subsidiaries and associated companies

During the year ended 31 March 2009, the Remaining Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Future plans for material investments or capital assets

As at 31 March 2009, the Remaining Group did not have future plans for any material investments or capital assets.

Capital commitment

As at 31 March 2009, the Remaining Group had total commitment of approximately HK\$100,000 in respect of acquisition of property, plant and equipment.

Contingent liabilities

As at 31 March 2009, the Remaining Group has not provided any form of guarantees for any company outside the Remaining Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Employment and remuneration policy

As at 31 March 2009, the Remaining Group had a total of approximately 20 employees. The Remaining 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. The Remaining Group's staff costs for the year ended 31 March 2009 amounted to approximately HK\$6.4 million.

For the year ended 31 March 2008*Financial review*

For the year ended 31 March 2008, the Remaining Group recorded approximately HK\$139.7 million revenue, representing an increase of approximately 86.7% when compared with that of approximately HK\$74.8 million for the year ended 31 March 2007. The gross profit of the Remaining Group for the year ended 31 March 2008 amounted to approximately HK\$53.5 million with a gross profit margin of approximately 38.3% of its total revenue, whereas the same were approximately HK\$28.6 million and 38.2% respectively for the year ended 31 March 2007. There were no significant change in the gross profit margin during the year.

The profit attributable to owners of the Remaining Group for the year ended 31 March 2008 amounted to approximately HK\$30.2 million with a net profit margin of approximately 21.6% of its total revenue, whereas the same were approximately was HK\$10.2 million and 13.3% respectively for the year ended 31 March 2007. The increase in profit attributable to owners of the Remaining Group by approximately 8.3% for the year ended 31 March 2008 when compared with that of the year ended 31 March 2007 was mainly due to the increase in sales revenue during the year.

There were no other significant fluctuations for the relevant period on the Remaining Group's balance sheet items.

Business review

During the year ended 31 March 2008, the Remaining Group has been focusing on trading for pharmaceutical products principally relating to gastro-intestinal and musculo-skeletal products, revenue from which amounted to approximately HK\$139.7 million, representing an increase of approximately 86.7% when compared

with that of approximately HK\$74.8 million for the year ended 31 March 2007. The Remaining Group's pivotal product, namely Gluthion, continued to excise its brand name effect and recorded growth in sales year after year on the back of establishing its position in the Chinese market. It recorded a significant increase of approximately 74% in sales for the year. Sales of the new medicine, namely Artrodar, distributed by the Remaining Group as a sole agent in China also increased significantly.

Prospects

As more information known to the public on the direction of healthcare reform of the PRC, the Remaining Group expected that Artrodar would be covered by the next round of the national basic medical insurance catalogue and experience exponential growth in sales.

Liquidity, financial resources and capital structure

As at 31 March 2008, the Remaining Group held cash and cash equivalents of approximately HK\$2.7 million. Net current assets amounted to approximately HK\$105.1 million.

As at 31 March 2008, the Remaining Group had aggregate banking facilities of approximately HK\$79.5 million, of which, approximately HK\$52.6 million was utilized, as to approximately HK\$13.8 million in long term bank loans, as to approximately HK\$10.9 million in short term bank loans, and as to the balance of approximately HK\$27.9 million in letters of guarantee issued by the relevant banks to independent third parties. The interest rates of the Remaining Group's bank loans were within the range of Hong Kong Interbank Offered Rate (HIBOR) plus 0.5% to 2.75% per annum, while all such loans were denominated in Hong Kong dollars.

As at 31 March 2008, the Remaining Group had outstanding bank loans of approximately HK\$24.7 million, representing a gearing ratio of approximately 18.0% of its net asset value of approximately HK\$137.4 million.

Interest rate risk

In view of comparatively high RMB interest rates, the Remaining 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 year ended 31 March 2008.

Foreign currency risk

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

Financial instrument for hedging purposes

During the year ended 31 March 2008, the Remaining Group did not have any financial instruments for hedging purposes.

Credit risk

The Remaining Group has a pragmatic approach towards credit risk management. New customers are usually not allowed on credit, while 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 Remaining Group's sales staff and marketing agents pay regular visits to customers to promote its 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.

Charges on assets

As at 31 March 2008, bank loans amounted to approximately HK\$18.8 million were secured by certain assets of the Remaining Group (being the properties located at Unit 2906, Lippo Centre, Tower 1, Admiralty, Hong Kong) having a net book value of approximately HK\$7.0 million.

Material acquisitions and disposal of subsidiaries and associated companies

During the year ended 31 March 2008, the Remaining Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Future plans for material investments or capital assets

As at 31 March 2008, the Remaining Group did not have future plans for any material investments or capital assets.

Capital commitment

As at 31 March 2008, the Remaining Group did not have any capital commitment.

Contingent liabilities

As at 31 March 2008, the Remaining Group has not provided any form of guarantees for any company outside the Remaining Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Employment and remuneration policy

As at 31 March 2008, the Remaining Group had a total of approximately 20 employees. The Remaining 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. The Remaining Group's staff costs for the year ended 31 March 2008 amounted to approximately HK\$5.8 million.

3. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 January 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had secured bank borrowings of approximately HK\$103.0 million. The secured bank borrowings are secured by a mortgage over the Group's buildings and prepaid lease payments with carrying amounts in aggregate of approximately HK\$125.5 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 January 2011, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's present internal resources and the net proceeds to be received from the Disposal and in the absence of unforeseen circumstances, the Remaining Group will, following completion of the Disposal, have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. TRADING PROSPECTS OF THE REMAINING GROUP

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

Continue sharing the operating results of the sub-group of jointly controlled entities of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa

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. The Board further considers it would enhance the streamlining of the pharmaceutical platform of the Group under Kunming Jida, to facilitate its brand building, increase operational efficiency as well as facilitate further expansion.

Immediately following the Completion, the Group itself would, on the one hand, focus on its existing business activities in trading of pharmaceutical products and health care products; while on the other hand, share the operating results of the sub-group of jointly controlled entities of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa.

Conducting key research and development projects

In view of the promising industrial prospect, the Group determined to achieve a "leaping" growth by injecting "innovative" ideas to its operation. A development project for key medicine bulk materials is being carried out. With groundbreaking progress, the product is about to enter pilot-scale experimental stage and is expected be introduced to market in 2012. This project, representing a milestone to the Group, is expected to bring very substantial profit returns to the Group and

greatly strengthen its status in the pharmaceutical market in the PRC, expanding its business overseas and leading the Remaining Group on the road to become a multi-national pharmaceutical enterprise. Apart from this development project, the Remaining Group is also carrying out one development project for cephalosporins intermediaries, which involve innovative technology and are regarded as the catalysts for the Group's leaping growth.

Conducting possible acquisitions and/or investments

Based on the Directors' current estimate, the Group's cash position and asset base will greatly enhanced after the Disposal as a result of the expected gain on the Disposal. The net proceeds of approximately RMB103.0 million (equivalent to approximately HK\$121.2 million) therefrom may provide additional general working capital to support the operation of the Group. The Remaining Group will allocate its cash resources and may seek to invest in some healthcare related business opportunities in Hong Kong to an extent that the overall financial position of the Remaining Group after any possible acquisitions/investments would not be materially and adversely affected.

Having considered the future prospects of the healthcare business, the Board considers that the Disposal would enhance the streamlining of the pharmaceutical platform of the Group under Kunming Jida, and will alleviate the Group's resources to expand its healthcare business when suitable opportunity arises; which will ultimately improve the profitability and financial position of the Remaining Group in the longer term. The Board also believes that the Disposal will enhance Shareholders' value and present the Remaining Group with favourable long-term prospects. As at the Latest Practicable Date, the Group has not identified any suitable opportunities for potential acquisition targets to expand the Remaining Business nor is in discussion for any possible acquisitions and investments.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, being the date to which the latest audited consolidated financial statements of the Group were made up.

Set out below are the unaudited statements of financial position of the Kunming Jida as of 31 March 2008, 31 March 2009, 31 March 2010 and 30 September 2010, and the unaudited statements of comprehensive income, statements of changes in equity, and statements of cash flows for the each of three years ended 31 March 2008, 2009 and 2010 and for the each of the six months ended 30 September 2009 and 2010 (the “**Relevant Periods**”) (as adjusted to bring into line any dissimilar accounting policies that may exist) and were reviewed by the reporting accountant of the Company, BDO Limited in accordance with Hong Kong Standard on Review Engagements 2400, “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants, without any qualified or modified conclusion in their related review report.

The unaudited financial information of Kunming Jida has been prepared in accordance with Rule 14.68(2)(a)(i) of the Listing Rules, solely for the purpose of inclusion in this circular and in accordance with accounting policies consistent with those adopted by the Group.

STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended				
	For the year ended 31 March			30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	232,065	322,573	396,281	204,748	231,175
Cost of sales	(137,395)	(203,099)	(231,304)	(118,355)	(133,713)
Gross profit	94,670	119,474	164,977	86,393	97,462
Other income	14,506	3,151	2,083	444	2,909
Selling expenses	(33,258)	(40,903)	(58,707)	(29,850)	(45,878)
Administrative expenses	(29,753)	(34,134)	(38,073)	(17,512)	(20,917)
Other operating expenses	(123)	(173)	(404)	(202)	(48)
Finance cost	(6,031)	(4,765)	(4,250)	(2,179)	(2,416)
Profit before income tax	40,011	42,650	65,626	37,094	31,112
Income tax expenses	(7,167)	(2,500)	(7,693)	(3,598)	(2,978)
Profit for the year/period	32,844	40,150	57,933	33,496	28,134
Other comprehensive income:					
Exchange gain/(loss) on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	13,179	4,973	(11)	(13)	5,841
Total comprehensive income for the year/period	46,023	45,123	57,922	33,483	33,975

STATEMENTS OF FINANCIAL POSITION

	As at			
	At as 31 March		30 September	
	2008	2009	2010	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	131,566	133,694	129,028	136,687
Land use rights	7,188	7,083	6,728	6,705
Construction in progress	5,169	4,140	7,372	4,279
Deferred tax assets	3,468	3,930	3,737	3,780
Intangible assets	593	5,231	5,720	5,548
Available-for-sale financial assets	1,352	—	—	—
	<u>149,336</u>	<u>154,078</u>	<u>152,585</u>	<u>156,999</u>
Current assets				
Inventories	51,255	50,171	79,884	61,056
Accounts and bills receivable	27,964	40,075	45,809	68,385
Land use rights	342	354	354	362
Other receivables and prepayments	15,421	13,706	21,868	19,403
Amounts due from related companies	19,587	13,544	16,983	15,102
Amounts due from fellow subsidiaries	3,901	31,855	78,946	63,332
Amount due from intermediate holding company	—	29,170	29,255	29,953
Cash and cash equivalents	8,832	24,312	8,845	32,492
Amount due from an investee company	2,878	—	—	—
Tax recoverable	54	—	—	—
	<u>130,234</u>	<u>203,187</u>	<u>281,944</u>	<u>290,085</u>

	As at			
	At as 31 March		30 September	
	2008	2009	2010	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current liabilities				
Accounts payable	23,062	21,974	52,217	35,676
Accruals and other payables	4,147	7,444	6,783	12,044
Bank loans	38,856	78,574	79,616	70,060
Amount due to immediate holding company	28,422	51,857	42,414	55,479
Amounts due to fellow subsidiaries	21,673	5,033	1,665	585
Tax payable	—	2,068	3,597	3,381
Dividend payable	18,218	—	—	5,294
	<u>134,378</u>	<u>166,950</u>	<u>186,292</u>	<u>182,519</u>
Net current (liabilities)/assets	<u>(4,144)</u>	<u>36,237</u>	<u>95,652</u>	<u>107,566</u>
Net assets	<u>145,192</u>	<u>190,315</u>	<u>248,237</u>	<u>264,565</u>
EQUITY				
Equity attributable to the owners of the Disposal Company				
Share capital	116,292	127,786	127,786	127,786
Reserves	28,900	62,529	120,451	136,779
Total equity	<u>145,192</u>	<u>190,315</u>	<u>248,237</u>	<u>264,565</u>

STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Unaudited for the year ended						
31 March						
Balance at 1 April 2007	106,917	(25,104)	2,306	8,557	33,143	125,819
Issue of share capital	9,375	—	—	—	(9,375)	—
Dividend paid	—	—	—	—	(26,650)	(26,650)
Transactions with owners	9,375	—	—	—	(36,025)	(26,650)
Profit for the year	—	—	—	—	32,844	32,844
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	13,179	—	13,179
Total comprehensive income for the year	—	—	—	13,179	32,844	46,023
Transfer to reserve	—	—	2,781	—	(2,781)	—
Balance at 31 March 2008 and 1 April 2008	116,292	(25,104)	5,087	21,736	27,181	145,192
Increase in share capital	11,494	(11,494)	—	—	—	—
Transactions with owners	11,494	(11,494)	—	—	—	—
Profit for the year	—	—	—	—	40,150	40,150
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	4,973	—	4,973
Total comprehensive income for the year	—	—	—	4,973	40,150	45,123
Transfer to reserve	—	—	3,103	—	(3,103)	—

	Share capital HK\$'000	Contributed surplus HK\$'000	General reserve fund HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 31 March 2009 and						
1 April 2009	127,786	(36,598)	8,190	26,709	64,228	190,315
Profit for the year	—	—	—	—	57,933	57,933
Other comprehensive income:						
Exchange loss on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	(11)	—	(11)
Total comprehensive income for the year	—	—	—	(11)	57,933	57,922
Transfer to reserve	—	—	4,826	—	(4,826)	—
Balance at 31 March 2010	127,786	(36,598)	13,016	26,698	117,335	248,237
Unaudited for the six months ended						
30 September						
Balance at 1 April 2009	127,786	(36,598)	8,190	26,709	64,228	190,315
Profit for the period	—	—	—	—	33,496	33,496
Other comprehensive income:						
Exchange loss on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	(13)	—	(13)
Total comprehensive income for the period	—	—	—	(13)	33,496	33,483
Balance at 30 September 2009	127,786	(36,598)	8,190	26,696	97,724	223,798

	Share capital HK\$'000	Contributed surplus HK\$'000	General reserve fund HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 April 2010	127,786	(36,598)	13,016	26,698	117,335	248,237
Dividend paid	—	—	—	—	(17,647)	(17,647)
Transactions with owners	—	—	—	—	(17,647)	(17,647)
Profit for the period	—	—	—	—	28,134	28,134
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	5,841	—	5,841
Total comprehensive income for the period	—	—	—	5,841	28,134	33,975
Balance at 30 September 2010	127,786	(36,598)	13,016	32,539	127,822	264,565

STATEMENTS OF CASH FLOWS

	For the year ended 31 March			For the six months ended 30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cash flows from operating activities					
Profit before income tax	40,011	42,650	65,626	37,094	31,112
Adjustments for:					
Interest income	(134)	(166)	(163)	(102)	(35)
Interest expenses	6,031	4,765	4,250	2,179	2,416
Depreciation	9,458	9,692	9,694	4,729	4,985
(Gain)/Loss on disposal of property, plant and equipment	(8,062)	10	233	205	21
Amortisation of land use rights	485	354	355	178	181
Amortisation of intangible assets	1,998	1,199	598	664	679
Gain on disposal of available-for-sale financial assets	—	(71)	—	—	—
Operating profit before working capital changes	49,787	58,433	80,593	44,947	39,359
(Increase)/Decrease in inventories	(22,467)	1,084	(29,713)	9,060	18,828
(Increase)/Decrease in accounts and bills receivable	(8,699)	(12,111)	(5,734)	1,303	(22,576)
Decrease/(Increase) in other receivables and prepayments	783	1,715	(8,162)	(6,681)	2,465
(Increase)/decrease in amounts due from related companies	(17,545)	6,043	(3,439)	(1,740)	1,881
(Increase)/decrease in amounts due from fellow subsidiaries	(2,330)	(27,954)	(47,091)	(23,172)	15,614
(Increase)/decrease in amount due from investee company	(2,878)	2,878	—	—	—
Increase in amount due from intermediate holding company	—	(29,170)	(85)	(80)	(698)
Increase/(decrease) in accounts payable	6,448	(1,088)	30,243	(7,575)	(16,541)
Increase/(decrease) in accruals and other payables	570	3,297	(661)	3,956	5,261
(Decrease)/Increase in amount due to immediate holding company	(7,343)	23,435	(9,443)	(10,113)	13,065
Increase/(decrease) in amounts due to fellow subsidiaries	18,364	(16,640)	(3,368)	8,930	(1,080)
Cash generated from operations	14,690	9,922	3,140	18,835	55,578
Income tax paid	(6,154)	(840)	(5,971)	(3,147)	(3,237)
Net cash generated from/(used in) operating activities	8,536	9,082	(2,831)	15,688	52,341

	For the year ended 31 March			For the six months ended 30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cash flows from investing activities					
Purchase of property, plant and equipment	(7,484)	(3,325)	(3,160)	(784)	(3,839)
Proceeds from disposals of property, plant and equipment	1,111	—	3	—	—
Payment for construction in progress	(152)	(2,743)	(5,336)	(1,546)	(2,525)
Interest received	134	166	163	102	35
Payment for acquisition of intangible assets	—	(5,817)	(1,087)	(1,451)	(373)
Proceeds from disposals of available-for-sale financial assets	—	1,469	—	—	—
Net cash used in investing activities	(6,391)	(10,250)	(9,417)	(3,679)	(6,702)
Cash flows from financing activities					
Proceeds from bank borrowings	51,633	78,573	14,772	—	14,180
Repayment of bank borrowings	(61,667)	(40,195)	(13,730)	(11,854)	(24,478)
Dividend paid	(6,222)	(18,846)	—	—	(12,353)
Interest paid	(6,031)	(4,765)	(4,250)	(2,179)	(2,416)
Net cash (used in)/generated from financing activities	(22,287)	14,767	(3,208)	(14,033)	(25,067)
Net (decrease)/increase in cash and cash equivalents	(20,142)	13,599	(15,456)	(2,024)	20,572
Cash and cash equivalents at the beginning of the year/period	14,297	8,832	24,312	24,312	8,845
Effect of foreign exchange rate changes	14,677	1,881	(11)	(13)	3,075
Cash and cash equivalents at the end of the year/period	8,832	24,312	8,845	22,275	32,492

Set out below are the unaudited statements of financial position of the Jiangsu Jiwa as of 31 March 2008, 31 March 2009, 31 March 2010 and 30 September 2010, and the unaudited statements of comprehensive income, statements of changes in equity, and statements of cash flows for the each of three years ended 31 March 2008, 2009 and 2010 and for the each of the six months ended 30 September 2009 and 2010 (the “**Relevant Periods**”) (as adjusted to bring into line any dissimilar accounting policies that may exist) and were reviewed by the reporting accountant of the Company, BDO Limited in accordance with Hong Kong Standard on Review Engagements 2400, “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants, without modifying their conclusion in their related review report, attention was drawn on the basis of preparation stated below.

The unaudited financial information of Jiangsu Jiwa has been prepared on a going concern basis, notwithstanding its net current liabilities position as of 30 September 2010. The going concern basis has been adopted on the basis of continuing financial support from a fellow subsidiary for at least 12 months from the date of the Circular.

The unaudited financial information of Jiangsu Jiwa has been prepared in accordance with Rule 14.68(2)(a)(i) of the Listing Rules, solely for the purpose of inclusion in this circular and in accordance with accounting policies consistent with those adopted by the Group.

STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended				
	For the year ended 31 March			30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	590	1,965	2,607	2,063	2,807
Cost of sales	(1,109)	(2,533)	(4,823)	(1,697)	(490)
Gross (loss)/profit	(519)	(568)	(2,216)	366	2,317
Other income	4,343	1,165	7,971	34	544
Selling expenses	(100)	(190)	(221)	(97)	(84)
Administrative expenses	(7,567)	(9,453)	(10,004)	(4,697)	(5,275)
Other operating expenses	—	(137)	(63)	—	(13)
Finance cost	(1,113)	—	—	(313)	(12)
Loss before income tax	(4,956)	(9,183)	(4,533)	(4,707)	(2,523)
Income tax expenses	—	—	—	—	—
Loss for the year/period	(4,956)	(9,183)	(4,533)	(4,707)	(2,523)
Other comprehensive income:					
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	5,005	1,967	—	—	1,292
Total comprehensive income for the year/period	49	(7,216)	(4,533)	(4,707)	(1,231)

STATEMENTS OF FINANCIAL POSITION

	At as 31 March		As at 30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	34,061	76,190	70,617	71,451
Land use rights	11,321	11,449	16,714	16,910
Construction in progress	37,641	5,221	17,049	24,694
Interests in associate	—	1,469	1,469	1,504
	83,023	94,329	105,849	114,559
Current assets				
Inventories	1,053	4,086	2,624	5,358
Accounts and bills receivable	57	203	2	829
Land use rights	253	262	385	393
Other receivables and prepayments	1,056	3,000	3,227	1,881
Cash and cash equivalents	9,221	2,999	3,578	3,243
Tax recoverable	468	—	—	—
	12,108	10,550	9,816	11,704
Current liabilities				
Accounts payable	357	1,399	929	1,191
Accruals and other payables	1,289	4,382	69	—
Bank loans	28,076	31,564	17,262	17,439
Amount due to immediate holding company	8,161	8,285	14,587	16,686
Amounts due to fellow subsidiaries	205	9,422	37,524	37,230
	38,088	55,052	70,371	72,546
Net current liabilities	(25,980)	(44,502)	(60,555)	(60,842)
Net assets	57,043	49,827	45,294	53,717
EQUITY				
Equity attributable to the owners of the Disposal Company				
Share capital	57,216	57,216	57,216	66,870
Reserves	(173)	(7,389)	(11,922)	(13,153)
Total equity	57,043	49,827	45,294	53,717

STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Unaudited for the year ended 31 March						
Balance at 1 April 2007	36,383	1	6,382	2,252	(8,857)	36,161
Issue of share capital	20,833	—	—	—	—	20,833
Transactions with owners	20,833	—	—	—	—	20,833
Loss for the year	—	—	—	—	(4,956)	(4,956)
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	5,005	—	5,005
Total comprehensive income for the year	—	—	—	5,005	(4,956)	49
Balance at 31 March 2008 and 1 April 2008	57,216	1	6,382	7,257	(13,813)	57,043
Loss for the year	—	—	—	—	(9,183)	(9,183)
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	1,967	—	1,967
Total comprehensive income for the year	—	—	—	1,967	(9,183)	(7,216)
Balance at 31 March 2009 and 1 April 2009	57,216	1	6,382	9,224	(22,996)	49,827
Loss for the year	—	—	—	—	(4,533)	(4,533)
Total comprehensive income for the year	—	—	—	—	(4,533)	(4,533)
Balance at 31 March 2010	57,216	1	6,382	9,224	(27,529)	45,294

	Share capital HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Unaudited for the six months ended						
30 September						
Balance at 1 April 2009	57,216	1	6,382	9,224	(22,996)	49,827
Loss for the period	—	—	—	—	(4,707)	(4,707)
Total comprehensive income for the period	—	—	—	—	(4,707)	(4,707)
Balance at 30 September 2009	57,216	1	6,382	9,224	(27,703)	45,120
Balance at 1 April 2010	57,216	1	6,382	9,224	(27,529)	45,294
Issue of share capital	9,654	—	—	—	—	9,654
Transactions with owners	9,654	—	—	—	—	9,654
Loss for the period	—	—	—	—	(2,523)	(2,523)
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	1,292	—	1,292
Total comprehensive income for the period	—	—	—	1,292	(2,523)	(1,231)
Balance at 30 September 2010	66,870	1	6,382	10,516	(30,052)	53,717

STATEMENTS OF CASH FLOWS

	For the six months ended				
	For the year ended 31 March			30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cash flows from operating activities					
Loss before income tax	(4,956)	(9,183)	(4,533)	(4,707)	(2,523)
Adjustments for:					
Interest income	(26)	(21)	(10)	(5)	(4)
Interest expenses	1,113	—	—	313	12
Depreciation	1,010	1,843	2,571	1,239	1,398
Loss/(Gain) on disposal of property, plant and equipment	466	42	(2,293)	112	—
Gain on disposal of land use rights	—	—	(5,650)	—	—
Amortisation of land use rights	254	262	262	189	196
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating loss before working capital changes	(2,139)	(7,057)	(9,653)	(2,859)	(921)
(Increase)/Decrease in inventories	(470)	(3,033)	1,462	(166)	(2,734)
(Increase)/Decrease in accounts and bills receivable	(57)	(146)	201	(2,232)	(827)
Decrease/(Increase) in other receivables and prepayments	2,213	(1,476)	(227)	1,601	1,346
Increase/(Decrease) in accounts payable	357	1,042	(470)	(1,399)	262
Increase/(Decrease) in accruals and other payables	1,289	3,093	(4,313)	6,555	(69)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	1,193	(7,577)	(13,000)	1,500	(2,943)
Cash flows from investing activities					
Purchase of property, plant and equipment	(1,193)	(1,292)	(1,037)	(707)	(569)
Proceeds from disposals of property, plant and equipment	—	—	9,088	—	—
Payment for construction in progress	(36,859)	(8,193)	(14,584)	(2,523)	(7,244)
Interest received	26	21	10	5	4
Payment for investment in associate	—	(1,469)	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(38,026)	(10,933)	(6,523)	(3,225)	(7,809)

	For the six months ended				
	For the year ended 31 March			30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cash flows from financing activities					
Proceeds from bank borrowings	28,076	3,223	—	—	—
Repayment of bank borrowings	—	—	(14,302)	—	—
(Decrease)/Increase in amount due to immediate holding company	(5,366)	124	6,302	46	2,099
Increase/(Decrease) in amounts due to fellow subsidiaries	53	9,217	28,102	1,111	(294)
Proceeds from issue of shares	20,833	—	—	—	9,654
Interest paid	(1,113)	—	—	(313)	(12)
Net cash generated from financing activities	42,483	12,564	20,102	844	11,447
Net increase/(decrease) in cash and cash equivalents	5,650	(5,946)	579	(881)	695
Cash and cash equivalents at the beginning of the year/period	2,819	9,221	2,999	2,999	3,578
Effect of foreign exchange rate changes	752	(276)	—	(174)	(1,030)
Cash and cash equivalents at the end of the year/period	9,221	2,999	3,578	1,944	3,243

Set out below are the unaudited statements of financial position of the Yunnan Jiwa as of 31 March 2008, 31 March 2009, 31 March 2010 and 30 September 2010, and the unaudited statements of comprehensive income, statements of changes in equity, and statements of cash flows for the each of three years ended 31 March 2008, 2009 and 2010 and for the each of the six months ended 30 September 2009 and 2010 (the “**Relevant Periods**”) (as adjusted to bring into line any dissimilar accounting policies that may exist) and were reviewed by the reporting accountant of the Company, BDO Limited in accordance with Hong Kong Standard on Review Engagements 2400, “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants, without modifying their conclusion in their related review report, attention was drawn on the basis of preparation stated below.

The unaudited financial information of Yunnan Jiwa has been prepared on a going concern basis, notwithstanding its net current liabilities position as of 30 September 2010. The going concern basis has been adopted on the basis of continuing financial support from a fellow subsidiary for at least 12 months from the date of the Circular.

The unaudited financial information of Yunnan Jiwa has been prepared in accordance with Rule 14.68(2)(a)(i) of the Listing Rules, solely for the purpose of inclusion in this circular and in accordance with accounting policies consistent with those adopted by the Group.

STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended				
	For the year ended 31 March			30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	150,171	102,131	183,882	101,153	106,056
Cost of sales	(93,653)	(61,694)	(111,491)	(61,345)	(64,771)
Gross profit	56,518	40,437	72,391	39,808	41,285
Other income	—	—	1,230	73	401
Selling expenses	(51,849)	(35,027)	(67,274)	(37,382)	(37,379)
Administrative expenses	—	(111)	(2,416)	(943)	(3,092)
Other operating expenses	(402)	(27)	(79)	—	(13)
Finance cost	(1,102)	(983)	(999)	(820)	(1,097)
Profit before income tax	3,165	4,289	2,853	736	105
Income tax (expenses)/refund	(2,100)	(515)	(1,171)	(169)	358
Profit for the year/period	1,065	3,774	1,682	567	463
Other comprehensive income:					
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	6	38	—	—	156
Total comprehensive income for the year/period	1,071	3,812	1,682	567	619

STATEMENTS OF FINANCIAL POSITION

	As at			
	At as 31 March		30 September	
	2008	2009	2010	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	28,923	28,785	34,902	34,861
Land use rights	6,138	6,241	5,923	5,911
Other receivables and prepayments	67	—	—	—
Intangible assets	109	—	—	—
	<u>35,237</u>	<u>35,026</u>	<u>40,825</u>	<u>40,772</u>
Current assets				
Inventories	31,698	10,843	14,814	16,481
Accounts and bills receivable	27,699	43,100	37,438	41,076
Land use rights	274	284	284	291
Other receivables and prepayments	897	9,397	23,741	26,764
Cash and cash equivalents	2,643	5,461	8,376	8,570
Amount due to a fellow subsidiary	—	8,046	8,046	8,235
	<u>63,211</u>	<u>77,131</u>	<u>92,699</u>	<u>101,417</u>
Current liabilities				
Accounts payable	65,670	29,722	37,536	33,359
Accruals and other payables	3,750	1,458	2,546	2,265
Bank loans	18,536	13,794	5,739	25,270
Amount due to immediate holding company	—	31,938	31,489	33,538
Amounts due to fellow subsidiaries	—	23,430	42,555	32,759
Tax payable	2,960	450	1,010	1,791
	<u>90,916</u>	<u>100,792</u>	<u>120,875</u>	<u>128,982</u>
Net current liabilities	<u>(27,705)</u>	<u>(23,661)</u>	<u>(28,176)</u>	<u>(27,565)</u>
Total assets less current liabilities	<u>7,532</u>	<u>11,365</u>	<u>12,649</u>	<u>13,207</u>

	As at			
	At as 31 March		30 September	
	2008	2009	2010	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Non-current liabilities				
Deferred tax liabilities	6,400	6,421	6,023	5,962
Net assets	1,132	4,944	6,626	7,245
EQUITY				
Equity attributable to the owners of the Disposal Company				
Share capital	16,335	16,335	16,335	16,335
Reserves	(15,203)	(11,391)	(9,709)	(9,090)
Total equity	1,132	4,944	6,626	7,245

STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
Unaudited for the year ended 31 March						
Balance at 1 April 2007	16,335	47	19,861	(1,185)	(34,997)	61
Profit for the year	—	—	—	—	1,065	1,065
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	6	—	6
Total comprehensive income for the year	—	—	—	6	1,065	1,071
Transfer to reserve	—	72	—	—	(72)	—
Balance at 31 March 2008 and 1 April 2008	16,335	119	19,861	(1,179)	(34,004)	1,132
Profit for the year	—	—	—	—	3,774	3,774
Other comprehensive income:						
Exchange gain on translation of financial statements from functional currency (RMB) to presentation currency (HK\$)	—	—	—	38	—	38
Total comprehensive income for the year	—	—	—	38	3,774	3,812
Balance at 31 March 2009 and 1 April 2009	16,335	119	19,861	(1,141)	(30,230)	4,944
Profit for the year (total comprehensive income for the year)	—	—	—	—	1,682	1,682
Balance at 31 March 2010	<u>16,335</u>	<u>119</u>	<u>19,861</u>	<u>(1,141)</u>	<u>(28,548)</u>	<u>6,626</u>

	Share capital HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
Unaudited for the six months ended						
30 September						
Balance at 1 April 2009	16,335	119	19,861	(1,141)	(30,230)	4,944
Profit for the period (total comprehensive income)	—	—	—	—	567	567
Balance at 30 September 2009	16,335	119	19,861	(1,141)	(29,663)	5,511
Balance at 1 April 2010	16,335	119	19,861	(1,141)	(28,548)	6,626
Profit for the period	—	—	—	—	463	463
Other comprehensive income:						
Exchange gain on translation of financial statements of from functional currency (RMB) to presentation currency (HK\$)	—	—	—	156	—	156
Total comprehensive income for the period	—	—	—	156	463	619
Balance at 30 September 2010	16,335	119	19,861	(985)	(28,085)	7,245

STATEMENTS OF CASH FLOWS

	For the six months ended				
	For the year ended 31 March		30 September		
2008	2009	2010	2009	2010	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities					
Profit before income tax	3,165	4,289	2,853	736	105
Adjustments for:					
Interest income	—	—	(102)	(14)	(32)
Interest expenses	1,102	983	999	820	1,097
Depreciation	462	967	2,018	992	1,219
Amortisation of intangible assets	70	112	—	—	—
Amortisation of land use rights	—	108	318	108	151
Operating profit before working capital changes	4,799	6,459	6,086	2,642	2,540
(Increase)/Decrease in inventories	(15,743)	20,855	(3,971)	(369)	(1,667)
(Increase)/Decrease in accounts and bills receivable	(5,257)	(15,401)	5,662	1,206	(3,638)
Decrease/(Increase) in other receivables and prepayments	2,624	(8,433)	(14,344)	(5,477)	(3,023)
Increase in amounts due from fellow subsidiaries	—	(8,046)	—	—	(189)
Increase/(decrease) in accounts payable	16,458	(35,948)	7,814	(2,447)	(4,177)
Increase/(decrease) in accruals and other payables	913	(2,292)	1,088	1,864	(281)
Increase/(decrease) in amount due to immediate holding company	—	31,938	(449)	(10,175)	2,049
Increase/(decrease) in amounts due to fellow subsidiaries	—	23,430	19,125	21,314	(9,796)
Cash generation from/(used in) operations	3,794	12,562	21,011	8,558	(18,182)
Income tax refund/(paid)	189	(3,004)	(1,009)	173	1,078
Net cash generated from/(used in) operating activities	3,983	9,558	20,002	8,731	(17,104)

	For the six months ended				
	For the year ended 31 March			30 September	
	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cash flows from investing activities					
Purchase of property, plant and equipment	—	(61)	(8,135)	(69)	(356)
Interest received	—	—	102	14	32
Net cash used in investing activities	—	(61)	(8,033)	(55)	(324)
Cash flows from financing activities					
Proceeds from bank borrowings	18,536	13,794	5,739	29,885	19,396
Repayment of bank borrowings	(19,933)	(19,175)	(13,794)	(35,633)	—
Dividend paid	(465)	—	—	—	—
Interest paid	(1,102)	(983)	(999)	(820)	(1,097)
Net cash (used in)/generated from financing activities	(2,964)	(6,364)	(9,054)	(6,568)	18,299
Net increase in cash and cash equivalents	1,019	3,133	2,915	2,108	871
Cash and cash equivalents at the beginning of the year/period	3,077	2,643	5,461	5,461	8,376
Effect of foreign exchange rate changes	(1,453)	(315)	—	—	(677)
Cash and cash equivalents at the end of the year/period	2,643	5,461	8,376	7,569	8,570

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
REMAINING GROUP****1. Introduction**

The unaudited pro forma financial information of the Remaining Group, comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows, has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal which, if materialized, would constitute a deemed disposal of the Disposed Group by the Company.

Immediately after Completion, the Company's shareholding interest in Kunming Jida will decrease from 70% to approximately 49%, and each company in the Disposed Group will cease to be a subsidiary of the Company. Accordingly, the results of the Disposed Group will no longer be consolidated into the financial statements of the Group after the Completion. Instead, the Group will equity-account for the results of the Disposed Group in its consolidated financial statements.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical financial information of the Group and other financial information included elsewhere in this circular. The unaudited pro forma financial information of the Remaining Group does not take account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information of the Remaining Group.

Unaudited Pro Forma Consolidated Statement of Financial Position

The unaudited pro forma consolidated statement of financial position of the Remaining Group (the “**Unaudited Pro Forma Consolidated Statement of Financial Position**”) has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the Disposal had been completed at the date reported on (i.e. 30 September 2010).

The Unaudited Pro Forma Consolidated Statement of Financial Position is based on the unaudited consolidated statement of financial position of the Group as at 30 September 2010 (as extracted from the Company's interim report for the six months ended 30 September 2010), the unaudited statements of financial position of each of the companies comprising the Disposed Group as at 30 September 2010 (as extracted from the reviewed financial information of the Disposed Group as shown in Appendix I), after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Statement of Financial Position has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Disposal been actually completed on 30 September 2010 or at any future date.

Unaudited Pro forma of Consolidated Statement of Financial position

	Consolidated statement of financial position of the Group as at 30 September 2010	HK\$'000 (Unaudited)	HK\$'000 (Note 1a)	HK\$'000 (Note 1b)	HK\$'000 (Note 1c)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000 (Unaudited)	Pro forma consolidated statement of financial position of the Remaining Group as at 30 September 2010
Non-current assets										
Property, plant and equipment	246,143	(136,687)	(71,451)	(34,861)	—	—	—	—	3,144	
Land use rights	33,762	(6,705)	(16,910)	(5,911)	—	—	—	—	4,236	
Construction in progress	29,718	(4,279)	(24,694)	—	—	—	—	—	745	
Interests in associates	19,692	—	(1,504)	—	345,882	—	—	—	364,070	
Goodwill	9,066	(1,012)	—	(8,054)	—	—	—	—	—	
Intangible assets	5,548	(5,548)	—	—	—	—	—	—	—	
Deferred tax assets	3,780	(3,780)	—	—	—	—	—	—	—	
	<u>347,709</u>	<u>(158,011)</u>	<u>(114,559)</u>	<u>(48,826)</u>	<u>345,882</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>372,195</u>	
Current assets										
Inventories	89,727	(61,056)	(5,358)	(16,481)	—	—	—	—	6,832	
Accounts and bills receivables	176,821	(68,385)	(829)	(41,076)	—	—	—	—	66,531	
Land use rights	1,081	(362)	(393)	(291)	—	—	—	—	35	
Deposits, prepayments and other receivables	87,358	(19,403)	(1,881)	(26,764)	—	—	—	—	39,310	
Amounts due from disposed group	—	(37,221)	53,916	58,062	—	—	(74,757)	—	—	
Amounts due from associates	—	—	—	—	—	—	—	31,854	31,854	
Amounts due from related companies	9,808	(9,808)	—	—	—	—	—	—	—	
Tax recoverable	103	—	—	—	—	—	—	—	103	
Pledged bank deposits	19,977	—	—	—	—	—	—	—	19,977	
Cash and cash equivalents	64,751	(32,492)	(3,243)	(8,570)	50,233	117,765	42,903	—	231,347	
	<u>449,626</u>	<u>(228,727)</u>	<u>42,212</u>	<u>(35,120)</u>	<u>50,233</u>	<u>117,765</u>	<u>42,903</u>	<u>—</u>	<u>395,989</u>	
Current liabilities										
Bank loans	108,942	(28,671)	(8,718)	(25,270)	—	—	—	—	46,283	
Accounts and bills payable	95,770	(35,676)	(1,191)	(33,359)	—	—	—	—	25,544	
Accrued expenses and other payables	20,112	(12,044)	—	(2,265)	115,179	1,969	—	—	122,951	
Tax payable	6,424	(3,381)	—	(1,791)	—	—	—	—	1,252	
	<u>231,248</u>	<u>(79,772)</u>	<u>(9,909)</u>	<u>(62,685)</u>	<u>115,179</u>	<u>1,969</u>	<u>—</u>	<u>—</u>	<u>196,030</u>	
Net current assets	218,378	(148,955)	52,121	27,565	(64,946)	115,796	—	—	199,959	
Total assets less current liabilities	566,087	(306,966)	(62,438)	(21,261)	280,936	115,796	—	—	572,154	

Consolidated statement of financial position of the Group as at 30 September 2010	Pro forma consolidated statement of financial position of the Remaining Group as at 30 September 2010						
	HK\$'000 (Unaudited)	HK\$'000 (Note 1a)	HK\$'000 (Note 1b)	HK\$'000 (Note 1c)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)
Non-current liabilities							
Bank loans	71,760	(41,389)	(8,721)	—	—	—	—
Deferred tax liabilities	5,960	—	—	(5,962)	—	—	—
	77,720	(41,389)	(8,721)	(5,962)	—	—	—
Net assets	488,367	(265,577)	(53,717)	(15,299)	280,936	115,796	—
	488,367	(265,577)	(53,717)	(15,299)	280,936	115,796	550,506
Equity							
Share capital	16,100	—	—	—	—	—	16,100
Reserves	390,817	(184,119)	(53,717)	(15,299)	280,936	115,796	—
Equity attributable to the Company's owners	406,917	(184,119)	(53,717)	(15,299)	280,936	115,796	—
Non-controlling interests	81,450	(81,458)	—	—	—	—	(8)
Total equity	488,367	(265,577)	(53,717)	(15,299)	280,936	115,796	—
	488,367	(265,577)	(53,717)	(15,299)	280,936	115,796	550,506

Unaudited Pro Forma Consolidated Statement of Comprehensive Income

The unaudited pro forma consolidated statement of comprehensive income of the Remaining Group (the “**Unaudited Pro Forma Consolidated Statement of Comprehensive Income**”) has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the Disposal had been completed at the commencement of the period being reported on (i.e. 1 April 2009).

The Unaudited Pro Forma Consolidated Statement of Comprehensive Income is based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 March 2010 (as extracted from the Company’s annual report for the financial year ended 31 March 2010), the unaudited combined statements of comprehensive income of each of the companies comprising the Disposed Group for the year ended 31 March 2010 (as extracted from the reviewed financial information of the Disposed Group as shown in Appendix I), after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Statement of Comprehensive Income has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the results of the Group had the Disposal been actually completed on 1 April 2009 or for any future period.

Unaudited Pro Forma Consolidated Statement of Comprehensive Income

	Consolidated statement of comprehensive income of the Group for the year ended 31 March 2010	HK\$'000 (Audited)	HK\$'000 (Note 5a)	HK\$'000 (Note 5b)	HK\$'000 (Note 5c)	HK\$'000 (Note 6)	HK\$'000 (Note 7)	HK\$'000 (Note 8)	Pro forma consolidated statement of comprehensive income of the Remaining Group for the year ended 31 March 2010	
Turnover	636,482	(396,281)		(2,607)	(183,882)	—	—	111,961	165,673	
Cost of sales	<u>(356,073)</u>		231,304		4,823	111,491	—	(111,620)	<u>(120,075)</u>	
Gross profit		280,409							45,598	
Other income	11,380	(2,083)		(7,971)	(1,230)	—	—	2,131	2,227	
Selling and distribution cost	(128,443)		58,707		221	67,274	—	—	<u>(2,241)</u>	
Administrative expenses	(65,329)		38,073		10,004	2,416	—	—	<u>(14,836)</u>	
Other operating expenses	<u>(1,171)</u>		404		63	79	—	—	<u>(625)</u>	
Operating profit	96,846								30,123	
Finance costs	(3,811)		4,250		—	999	—	—	<u>(2,131)</u> (693)	
Gain on deemed disposal of subsidiary	—		—		—	113,430	—	—	113,430	
Gain on disposal of subsidiaries	—		—		—	—	60,548	—	60,548	
Share of net profit/(loss) in associates	<u>(101)</u>		—		—	—	—	26,990	<u>26,889</u>	
Profit before income tax	92,934								230,297	
Income tax expenses	<u>(11,348)</u>		7,693		—	1,171	—	—	<u>(2,484)</u>	
Profit for the year	81,586		(57,933)		4,533	(1,682)	113,430	60,548	27,331	227,813
<i>Other comprehensive income</i>										
Exchange gain on translation of financial statements of foreign operations	6		11		—	—	—	—	—	17
Reclassification adjustments relating to disposal of foreign subsidiaries	—		—		—	—	(16,834)	(10,055)	—	<u>(26,889)</u>
Total comprehensive income for the year	<u>81,592</u>		<u>(57,922)</u>		<u>4,533</u>	<u>(1,682)</u>	<u>96,596</u>	<u>50,493</u>	<u>27,331</u>	<u>20,941</u>

Unaudited Pro Forma Consolidated Statement of Cash Flows

The unaudited pro forma consolidated statement of cash flows of the Remaining Group (the “**Unaudited Pro Forma Consolidated Statement of Cash Flows**”) has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the Disposal had been completed at the commencement of the period being reported on (i.e. 1 April 2009).

The Unaudited Pro Forma Consolidated Statement of Cash Flows is based on the audited consolidated statement of cash flows of the Group for the year ended 31 March 2010 (as extracted from the Company’s annual report for the financial year ended 31 March 2010), the unaudited combined statement of cash flows of the Disposed Group for the year ended 31 March 2010 (as extracted from the reviewed financial information of the Disposed Group as shown in Appendix II), after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Statement of Cash Flows has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the cash flows of the Group had the Disposal been actually completed on 1 April 2009 or for any future period.

Unaudited Pro Forma Consolidated Statement of Cash Flows

Consolidated statement of cash flows of the Group for the year ended 31 March 2010	Pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 March 2010								
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Audited)	(Note 9a)	(Note 9b)	(Note 9c)	(Note 6)	(Note 7)	(Note 8)	(Note 4)	
Cash flows from operating activities									
Profit before taxation	92,934	(65,626)	4,533	(2,853)	113,430	60,548	27,331	—	230,297
Adjustments for:									
Interest income	(289)	163	10	102	—	—	(2,143)	—	(2,157)
Interest expenses	4,618	(4,250)	—	(999)	—	—	2,131	—	1,500
Depreciation of property, plant and equipment	14,559	(9,694)	(2,571)	(2,018)	—	—	—	—	276
Amortisation of land use rights	969	(355)	(262)	(318)	—	—	—	—	34
Amortisation of intangible assets	598	(598)	—	—	—	—	—	—	—
Gain on disposal of property, plant and equipment	(2,293)	—	2,293	—	—	—	—	—	—
Loss on disposal of property, plant and equipment	233	(233)	—	—	—	—	—	—	—
Gain on disposal of land use right	(5,650)	—	5,650	—	—	—	—	—	—
Provision for impairment of obsolete inventories	1,877	—	—	—	—	—	—	—	1,877
Reversal of inventory written off	(705)	—	—	—	—	—	—	—	(705)
Share of result of associates	101	—	—	—	—	—	(26,990)	—	(26,889)
Gain on disposal of subsidiaries	—	—	—	—	(113,430)	(60,548)	—	—	(173,978)
Operating profit before changes in working capital	106,952								30,255
Increase in inventories	(37,381)	29,713	(1,462)	3,971	—	—	—	—	(5,159)
Increase in accounts and bills receivable	(21,593)	5,734	(201)	(5,662)	—	—	—	—	(21,722)
(Increase)/ decrease in other receivables and prepayments	(22,648)	8,162	227	14,344	—	—	—	—	85
Increase in amount due from related company	(3,439)	3,439	—	—	—	—	—	—	—
Increase in trade payables	42,965	(30,243)	470	(7,814)	—	—	—	—	5,378
(Decrease)/ increase in other payables and accruals	(3,866)	661	4,313	(1,088)	—	—	—	—	20
Increase in amounts due to associates	—	59,987	—	(18,676)	—	—	—	—	41,311

Consolidated statement of cash flows of the Group for the year ended 31 March 2010	Pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 March 2010							
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Note 9a)	(Note 9b)	(Note 9c)	(Note 6)	(Note 7)	(Note 8)	(Note 4)
Cash generated from operations	60,990							50,168
Hong Kong profits tax paid	(3,278)	—	—	—	—	—	—	(3,278)
Taxation outside Hong Kong paid	(8,965)	5,971	—	1,009	—	—	—	(1,985)
Taxation outside Hong Kong refunded	1,984	—	—	—	—	—	—	1,984
Net cash generated from operating activities	50,731							46,889
Cash flows from Investing activities								
Purchase of property, plant and equipment	(12,638)	3,160	1,037	8,135	—	—	—	(306)
Proceeds from disposals of property, plant and equipment	9,091	(3)	(9,088)	—	—	—	—	—
Payment for construction in progress	(20,269)	5,336	14,584	—	—	—	—	(349)
Payment for acquisition of intangible assets	(1,087)	1,087	—	—	—	—	—	—
Decrease in pledged bank deposits	6,400	—	—	—	—	—	—	6,400
Interest received	289	(163)	(10)	(102)	—	—	2,143	—
Disposal of subsidiaries	—	—	—	—	(17,724)	115,057	—	97,333
Net cash (used in)/ generated from investing activities	(18,214)							105,235

APPENDIX V

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

Consolidated statement of cash flows of the Group for the year ended 31 March 2010	Pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 March 2010								
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Audited)	(Note 9a)	(Note 9b)	(Note 9c)	(Note 6)	(Note 7)	(Note 8)	(Note 4)	(Unaudited)	
Cash flows from financing activities									
Proceeds from bank borrowings	36,622	(14,772)	—	(5,739)	—	—	—	16,111	
Repayment of bank borrowings	(57,440)	13,730	14,302	13,794	—	—	—	(15,614)	
Loans to associates	—	—	(34,404)	—	—	—	—	(34,404)	
Repayment of loans from disposed group	—	—	—	—	—	—	42,903	42,903	
Proceeds from issue of shares upon exercise of share options	1,500	—	—	—	—	—	—	1,500	
Interest paid	(4,618)	4,250	—	999	—	—	(2,131)	—	(1,500)
Dividend paid the Company's owners	(16,050)	—	—	—	—	—	—	(16,050)	
Dividend paid by Kunming Jida	—	—	—	—	(4,515)	—	—	(4,515)	
Net cash (used in)/ generated from financing activities	—	(39,986)	—	—	—	—	—	(11,569)	
Net (decrease)/ increase in cash and cash equivalents	—	(7,469)	—	—	—	—	—	140,555	
Cash and cash equivalents at beginning of year	—	42,420	—	—	—	—	—	42,420	
Exchange difference	—	(148)	—	—	—	—	—	(148)	
Cash and cash equivalents at end of year	—	34,803	—	—	—	—	—	182,827	

Notes to the unaudited pro forma financial information

- 1a. Immediately after completion of the Capital Injection Agreement, the Group's shareholding interest in Kunming Jida will decrease from 70% to approximately 49% and Kunming Jida will cease to be a subsidiary of the Group and become a 49% owned associate of the Group. The adjustment represents the deconsolidation of the assets and liabilities of Kunming Jida as at 30 September 2010 as if the Capital Injection Agreement had been completed at the date reported on.
- 1b. Conditional upon the Proposed Capital Injection, Kunming Jida will purchase from the Group 100% equity interest in Jiangsu Jiwa at a cash consideration of approximately RMB64.6 million. After Completion, Jiangsu Jiwa will cease to be a subsidiary of the Group and become a 49% owned associate of the Group. The adjustment represents the deconsolidation of the assets and liabilities of Jiangsu Jiwa as at 30 September 2010 as if the Jiangsu Jiwa Disposal Agreement had been completed at the date reported on.
- 1c. Conditional upon the Proposed Capital Injection, Kunming Jida will purchase from the Group 93% equity interest in Yunnan Jiwa at a cash consideration of approximately RMB35.5 million. After Completion, Yunnan Jiwa will cease to be a subsidiary of the Group and become a 49% owned associates of the Group. The adjustment represents the deconsolidation of the assets and liabilities of Yunnan Jiwa as at 30 September 2010 as if the Yunnan Jiwa Disposal Agreement had been completed at the date reported on.
2. The adjustment reflects the assets and liabilities arising on the Proposed Capital Injection.
 - (i) Interest in Kunming Jida of HK\$345,882,000 is derived from the estimated fair value of the Group's remaining 49% equity interest in Kunming Jida immediately after the Completion.

	<i>RMB '000</i>	<i>HK\$ '000</i>
Estimated fair value of Kunming Jida after the Completion	600,000	705,882
Share of 49% of the estimated fair value of Kunming Jida	294,000	345,882

The fair value of Kunming Jida is estimated by the management with reference to general private company price-to-earnings ratio invested by private equity fund in pharmaceutical industry in PRC (the market-based approach) and cross-referenced to the results by the asset-based approach, which is the estimated asset-based value of Kunming Jida after the Completion. The management considered the fair value of Kunming Jida has been estimated in accordance with the required Hong Kong accounting standards.

The fair value of Kunming Jida has been estimated by the management with reference to the financial information of Kunming Jida.

(ii) Pursuant to the Capital Injection Agreement, Kunming Jida's retained earnings immediately before the Proposed Capital Injection is to be distributed to the existing shareholders. Based on the unaudited management accounts of Kunming Jida as of 30 September 2010, retained earnings of RMB44,945,000 (equivalent to HK\$52,877,000) representing 70% of Kunming Jida's retained earnings is to be distributed to the Group. Such dividend is subject to PRC withholding tax of 5%, which amounts to RMB2,247,000 (equivalent to HK\$2,644,000).

(iii) Management estimates that provision for the profit guarantee under the Capital Injection Agreement and the Repurchase Obligation under the two Shareholder Agreements to be RMB12,275,000 (equivalent to HK\$14,441,000) and RMB85,627,000 (equivalent to HK\$100,738,000) respectively. The provision for profit guarantee is made with the assumption that the estimated profit for 2011 will be 10% below the guaranteed amount of RMB67,500,000, discounted to present value at a discount rate of 10%. The provision for the Repurchase Obligation is estimated based on the difference between (i) the estimated present value to repurchase 30% equity interest in Kunming Jida from the Subscribers and (ii) the estimated present value of 30% equity interest in the Disposed Group at a discount rate of 10% with a conservative assumption of 18% profit growth rate per annum. The actual profit growth rate of Kunming Jida for the year 2008/09 and 2009/10 were 22.2% and 44.3% respectively.

3. The adjustment reflects the cash consideration for the 100% equity interest in Jiangsu Jiwa and 93% equity interest in Yunnan Jiwa of RMB64,600,000 (equivalent to HK\$76,000,000) and RMB35,500,000 (equivalent to HK\$41,765,000) respectively and estimated PRC capital gain tax payable of RMB1,674,000 (equivalent to HK\$1,969,000).

4. The adjustment reflects the reclassification of the amounts due from the Disposed Group of HK\$31,854,000 and repayment of loans due from the Disposal Group of HK\$42,903,000 to amounts due from associates and cash and cash equivalents respectively, as at 30 September 2010.

5a. Immediately after completion of the Capital Injection Agreement, the Group's shareholding interest in Kunming Jida will decrease from 70% to approximately 49% and Kunming Jida will cease to be a subsidiary of the Group and become a 49% owned associate of the Group. The adjustment represents the deconsolidation of the results of Kunming Jida for the year ended 31 March 2010 as if the Capital Injection Agreement had been completed on 1 April 2009. This adjustment is not expected to have a continuing effect on the Remaining Group.

5b. Conditional upon the Proposed Capital Injection, Kunming Jida will purchase from the Group 100% equity interest in Jiangsu Jiwa at a cash consideration of approximately RMB64.6 million. After Completion, Jiangsu Jiwa will cease to be a subsidiary of the Group and become a 49% owned associate of the Group. The adjustment represents the deconsolidation of the results of Jiangsu Jiwa for the year ended 31 March 2010 as if the Jiangsu Jiwa Disposal Agreement had been completed on 1 April 2009. This adjustment is not expected to have a continuing effect of the Remaining Group.

5c. Conditional upon the Proposed Capital Injection, Kunming Jida will purchase from the Group of 93% equity interest in Yunnan Jiwa at a cash consideration of approximately RMB35.5 million. After Completion, Yunnan Jiwa will cease to be a subsidiary of the Group and become a 49% owned associates of the Group. The adjustment represents the deconsolidation of the results of Yunnan Jiwa for the year ended 31 March 2010 as if the Yunnan Jiwa Disposal Agreement had been completed on 1 April 2009. This adjustment is not expected to have a continuing effect of the Remaining Group.

6. The gain on the deemed disposal of Kunming Jida is calculated on the basis of the estimated fair value of 49% share of Kunming Jida after the Completion, plus (i) carrying value of non-controlling interest before the Capital Injection Completion; (ii) distribution of retained earnings of Kunming Jida as at 1 April 2009 to the Group; (iii) reclassification of the Group's share of translation reserves in Kunming Jida as at 1 April 2009 and after the deduction for (i) carrying value of Kunming Jida's net assets as at 1 April 2009; and (ii) the estimated provision for the profit guarantee of RMB67.5 million under Capital Injection Agreement and the Repurchase Obligation under the two Shareholder Agreements.

	RMB '000	HK\$ '000
Estimated fair value of Kunming Jida after the Completion	<u>600,000</u>	<u>689,655</u>
Share of 49% of the estimated fair value of Kunming Jida after Completion	294,000	337,931
Carrying value of non-controlling interest	45,210	51,965
Distribution of retained profit to the Group	9,164	10,533
Reclassification of translation reserve	14,646	16,834
<i>Less:</i>		
Carrying value of Kunming Jida's net assets	166,432	191,302
Estimated provision for profit guarantee of RMB67.5 million under Capital Injection Agreement and the Repurchase Obligation under the two Shareholder Agreements	<u>97,902</u>	<u>112,531</u>
Assumed gain on deemed disposal of Kunming Jida as at 1 April 2009	98,686	113,430

The fair value of Kunming Jida for the calculation of the gain on the deemed disposal is estimated by the management with reference to general private company price-to-earnings ratio invested by private equity fund in pharmaceutical industry in PRC (the market based approach) and cross-referenced to the results by the asset-based approach, which is the estimated asset-based value of Kunming Jida after the Completion.

Management estimates that provision for the profit guarantee under the Capital Injection Agreement and the Repurchase Obligation under the two Shareholder Agreements to be RMB12,275,000 (equivalent to HK\$14,109,000) and RMB85,627,000 (equivalent to HK\$98,422,000) respectively. The provision for profit guarantee is made with the assumption that the estimated profit for 2011 will be 10% below the guaranteed amount of RMB67,500,000, discounted to present value at a discount rate of 10%. The provision for the Repurchase Obligation is estimated based on the difference between (i) the estimated present value to repurchase 30% equity interest in Kunming Jida from the Subscribers and (ii) the estimated present value of 30% equity interest in the Disposed Group at a discount

rate of 10% with a conservative assumption of 18% profit growth rate per annum. The actual profit growth rate of Kunming Jida for the year 2008/09 and 2009/10 were 22.2% and 44.3% respectively.

7. The gains on the disposal of Jiangsu Jiwa and Yunnan Jiwa are calculated on the basis of the consideration at RMB64.6 million and RMB35.5 million respectively as follows the calculation below assumes disposal of 100% equity interest in Jiangsu Jiwa and Yunnan Jiwa, since Jiangsu Jiwa owns 7% equity interest in Yunnan Jiwa, such assumption has no effect on the calculation of the overall gains on disposals of the two companies.

Disposal gain in Jiangsu Jiwa	<i>RMB '000</i>	<i>HK\$ '000</i>
Estimated consideration of Jiangsu Jiwa	64,600	74,253
<i>Less:</i> Carrying value of Jiangsu Jiwa's net assets	(43,349)	(49,827)
<i>Add:</i> Reclassification of translation reserve	8,730	10,034
Assumed gain on disposal of Jiangsu Jiwa as at 1 April 2009	<u>29,981</u>	<u>34,460</u>
Disposal gain in Yunnan Jiwa	<i>RMB '000</i>	<i>HK\$ '000</i>
Estimated consideration of Yunnan Jiwa	35,500	40,804
<i>Less:</i> Carrying value of Yunnan Jiwa's net assets	(4,301)	(4,944)
Goodwill	(6,846)	(7,869)
<i>Less:</i> PRC capital gain tax	(1,674)	(1,924)
<i>Add:</i> Reclassification of translation reserve	18	21
Assumed gain on disposal of Yunnan Jiwa as at 1 April 2009	<u>22,697</u>	<u>26,088</u>

8. The adjustments reflect the equity account of 49% share of the profit and loss of Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa for the year ended 31 March 2010. The adjustments also reflect the reversal of unrealized profit on stocks, the reversal of inter company sales and purchase eliminations within the Group and the reclassifications of inter company loan income to loan interest in Kunming Jida and Yunnan Jiwa for the year ended 31 March 2010.

9a. The adjustment reflects the exclusion of the cash flows of Kunming Jida for the year ended 31 March 2010, assuming the Disposal had taken place on 1 April 2009. This adjustment is not expected to have a continuing effect on the Remaining Group.

9b. The adjustment reflects the exclusion of the cash flows of Jiangsu Jiwa for the year ended 31 March 2010, assuming the Disposal had taken place on 1 April 2009. This adjustment is not expected to have a continuing effect on the Remaining Group.

9c. The adjustment reflects the exclusion of the cash flows of Yunnan Jiwa for the year ended 31 March 2010, assuming the Disposal had taken place on 1 April 2009. This adjustment is not expected to have a continuing effect on the Remaining Group.

Note: For the purpose of the presentation of the unaudited pro forma financial information, conversion of RMB to HK\$ is calculated at the following exchange rates:

HK\$1 to RMB0.87 as at 1 April 2009

HK\$1 to RMB0.85 as at 30 September 2010

**B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

The following is the text of a report prepared by BDO Limited, the independent reporting accountants, in respect of the unaudited pro forma financial information of the Remaining Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.



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14 March 2011

The Directors
Jiwa Bio-Pharm Holdings Limited
2904 & 2906 Tower One
Lippo Centre
89 Queensway
Central
Hong Kong

Dear Sirs,

**ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP****Introduction**

We report on the unaudited pro forma financial information (the “**Unaudited Pro Forma Financial Information**”) of Jiwa Bio-Pharm Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) in connection with the proposed deemed disposal of 21% equity interest in Kunming Jida Pharmaceutical Company Limited (“**Kunming Jida**”), proposed disposal of 100% and 93% effective equity interests in Jiangsu Jiwa Rintech Pharmaceutical Limited (“**Jiangsu Jiwa**”) and Yunnan Jiwa Pharm Logistics Company Limited (“**Yunnan Jiwa**”) respectively (the “**Disposal**”). Kunming Jida is currently an indirect 70% owned subsidiary of the Company and Jiangsu Jiwa and Yunnan Jiwa are both currently indirect 100% owned subsidiaries of the Company (collectively referred as the “**Disposed Group**”). Immediately after the Disposal, the Disposed

Group will become 49% indirectly-owned jointly controlled entities of the Company. The Unaudited Pro Forma Financial Information have been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Disposal might have affected the financial information presented, for inclusion in Appendix II of the Company's circular dated 14 March 2011 (the “**Circular**”). The Group without the Disposed Group is referred to as the Remaining Group. The basis of preparation of the unaudited pro forma financial information is set out in the section headed “Unaudited Pro Forma Financial Information of the Remaining Group” on page 94 of Appendix V to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

It is our responsibility to form an opinion, as required by Rule 4.29 of the Listing Rules on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments

are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of

- the financial position of the Remaining Group as at 30 September 2010 or any future date, or
- the results and cash flows of the Remaining Group for the year ended 31 March 2010 or any future periods.

Opinion

In our opinion:

- the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
For and on behalf of
BDO Limited
Certified Public Accountants
Hong Kong

Chiu Wing Cheung, Ringo
Practising Certificate number: P04434

This Appendix VI contains certain English translation of the Summary of Asset Valuation Report regarding Jiangsu Jiwa and an extract of the related valuation assumptions and explanation shown in the full text of such report. It is solely for Shareholders' information.

The Company has obtained the requisite consent from the Company and Kunming Jida, for the purpose of incorporation of the Summary of the Asset Valuation Report and the said extract as set out in Part A and B of this appendix.

A. The following is the translated text of the Summary of the Asset Valuation Report prepared by 北京國友大正資產評估有限公司 (Beijing Guo You Da Zheng Appraisal Company Limited) (the "PRC Valuer" or "Beijing Guo You"), an independent and qualified valuer in the PRC, in connection with its valuation of Jiangsu Jiwa as at 28 February 2011.

Beijing Guo You possesses qualifications to conduct asset valuation business granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.



國友大正

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SUMMARY OF THE ASSET VALUATION REPORT

In Relation To the Company's Intended Understanding of the Market Value of the Book Assets and Liabilities of Jiangsu Jiwa

Guoyoudazheng Ping Bao Zi (2011) No. 33

To: Jiwa Bio-Pharm Holdings Limited

Beijing Guo You has accepted your instruction to conduct a valuation of the book assets and liabilities of Jiangsu Jiwa in accordance with the relevant laws and regulations and the asset valuation standards of the PRC based on the principles of independence, objectivity and fairness, with the purpose of providing a basis of

reference for the Company's intended understanding of the book assets and liabilities of Jiangsu Jiwa. Under such purpose of valuation, the client and other users of the valuation report should not use this valuation report for the purpose of any intended transactions.

The subject of valuation of this project is the book assets and liabilities of Jiangsu Jiwa, with the actual scope based on the list of valuation jointly provided by the client and Jiangsu Jiwa. The valuation represents the market value, and the date of valuation is 28 February 2011.

The valuer has carried out the necessary valuation procedure and the premises that the assets would be under continuing use and open market. The replacement cost method was used during the valuation.

As at the date of valuation, the valuation result of the book assets and liabilities of Jiangsu Jiwa was as follow:

Summary of Asset Valuation Result

Currency unit: RMB' 0000

Items		Book value	Valuation	Increase/ decrease	% increase
		A	B	C = B-A	D=C/B×100%
Current assets	1	693.77	730.75	36.98	5.33
Non-current assets	2	10,439.45	11,806.66	1,367.21	13.1
Of which:					
Long-term equity investment	3	127.85	259.00	131.15	102.58
Fixed assets	4	6,570.61	6,195.41	(375.21)	(5.71)
Construction in progress	5	3,074.84	3,149.25	74.41	2.42
Capital assets disposal	6	8.70	—	(8.70)	(100.00)
Intangible assets	7	378.06	1,935.24	1,557.18	411.89
Amortization of long-term deferred expenses	8	279.39	267.76	(11.63)	(4.16)
Total assets	9	11,133.22	12,537.41	1,404.19	12.61
Current liabilities	10	5,763.12	5,763.12	—	—
Non-current liabilities	11	1,931.10	1,153.60	(777.50)	(40.26)
Total liabilities	12	7,694.22	6,916.72	(777.50)	(10.10)
Net assets	13	3,439.00	5,620.69	2,181.69	63.44

This valuation is only intended for valuation purposes and uses stated in the valuation report and shall not be used for other purposes and uses. The certified public valuers and the appraisal company to which they belong shall not be held liable for consequences as a result of inappropriate use.

Without the consent of the appraisal company, the contents of the valuation report shall not be extracted, quoted or disclosed publicly in whole or in part.

The conclusion of this valuation report is valid for use for one year commencing from the date of valuation as at 28 February 2011 and expiring on 27 February 2012.

Special notes:

- (i) As at the date of valuation, 3 buildings are subject to mortgages in favour of US\$2 million, with the mortgagee being Nanyang Commercial Bank, and the mortgage period lasting from 20 September 2007 to 20 September 2012;
- (ii) An agreement relating to the replacement of land use right and transfer of buildings has been entered into between the People's Government of Huangtu Town, Jiangyin City, Jiangsu Province, the PRC and Jiangsu Jiwa. However, the relevant transfer procedures in the Land Bureau in relation to the land and buildings and the ancillary structures to be replaced and transferred to have not yet been completed and were still shown in the book of accounts of Jiangsu Jiwa as at 28 February 2011. Having considered the fact that Jiangsu Jiwa no longer has the land use rights over the said land and buildings, which therefore have not been included in this valuation report. The valuer has only taken into account the asset value of the land and buildings and the ancillary structures erected on the new land site.

The above contents are extracted from the full text of the asset valuation report. To comprehensively understand the appraised items and valuation conclusion, please read the full text of the asset valuation report.

This valuation report is dated 14 March 2011.

In case of any discrepancy between the English version and the Chinese version of this valuation report, the Chinese version shall prevail.

Beijing Guo You Da Zheng Appraisal Company Limited

Legal representative: Chen Dong Mei

Certified Public Valuer: Zhang Guo Liang and Su Jie

B. The following is the extract of the translated text of the valuation assumptions and explanation as shown in the full text of the Asset Valuation Report prepared by Beijing Guo You, an independent valuer, in connection with its valuation of Jiangsu Jiwa as at 28 February 2011. The following does not form any part of the Summary of the Asset Valuation Report set out in Part A of this appendix.

This valuation is based on the financial and accounting information and other information such as asset ownership certificates provided by Jiangsu Jiwa. The appraised entity shall be responsible for the truthfulness, accuracy and completeness of the information so provided and the legality and validity of the asset ownership certificates.

After the valuation date, if there is any change in the quantity of the assets during the validity period of this valuation report, relevant adjustments to the asset value should be made by way of additions or subtractions, the value estimation of which shall be based on the original valuation methodology for that type of asset. If owing to special reasons which led to changes in the asset pricing standard and having significant influence on the asset valuation, the entrusting party shall request for re-determination of the appraised value by the appraisal institution in accordance with actual circumstances.

The scope of this valuation shall be confined to the assets and liabilities reported by Jiangsu Jiwa, without taking into consideration the impact on the asset prices from the possible losses arising from the following economic activities:

- (i) contingent guarantee, the guarantee for other external parties in the name of the company or with its assets;
- (ii) liabilities not yet discovered and potential litigations;
- (iii) taxation obligation and default penalty, situation that the taxation authority demanding extra taxation charges and payment of default penalty;
- (iv) other contingent liabilities.

The book value arrived at in this asset valuation report is determined upon the accounting books and records and financial information provided by Jiangsu Jiwa and is directly applied by us, we do not assume responsibility for the truthfulness and compliance of its accounting books and records and financial information.

This Appendix VII contains certain English translation of the Summary of Asset Valuation Report regarding Yunnan Jiwa and an extract of the related valuation assumptions and explanation shown in the full text of such report. It is solely for Shareholders' information.

The Company has obtained the requisite consent from the Company and Kunming Jida, for the purpose of incorporation of the Summary of the Asset Valuation Report and the said extract as set out in Part A and B of this appendix.

A. The following is the translated text of the Summary of the Asset Valuation Report prepared by 北京國友大正資產評估有限公司 (Beijing Guo You Da Zheng Appraisal Company Limited) (the “PRC Valuer” or “Beijing Guo You”), an independent and qualified valuer in the PRC, in connection with its valuation of Yunnan Jiwa as at 28 February 2011.

Beijing Guo You possesses qualifications to conduct asset valuation business granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.



國友大正

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SUMMARY OF THE ASSET VALUATION REPORT

In Relation to the Company's Intended Understanding of the Market Value of the Book Assets and Liabilities of Yunnan Jiwa

Guoyoudazheng Ping Bao Zi (2011) No. 34

To: Jiwa Bio-Pharm Holdings Limited

Beijing Guo You has accepted your instruction to conduct valuation of the book assets and liabilities of Yunnan Jiwa in accordance with the relevant laws and regulations and the asset valuation standards of the PRC based on the principles

of independence, objectivity and fairness, with the purpose of providing a basis of reference for the Company's intended understanding of the book assets and liabilities of Yunnan Jiwa. Under such purpose of valuation, the client and other users of the valuation report should not use this valuation report for the purpose of any intended transactions.

The subject of valuation of this project is the book assets and liabilities of Yunnan Jiwa, with the actual scope based on the list of valuation jointly provided by the client and Yunnan Jiwa. The valuation represents the market value, and the date of valuation is 28 February 2011.

The valuers have carried out the necessary valuation procedure and the premises that the assets would be under continuing use and open market. The replacement cost method was used during the valuation.

As at the date of valuation, the valuation result of the book assets and liabilities of Yunnan Jiwa was as follow:

Summary of Asset Valuation Result

Items		<i>Currency unit: RMB '0000</i>			
		Book value	Valuation	Increase/ decrease	% increase
		A	B	C = B-A	D=C/B×100%
Current assets	1	10,372.84	10,488.48	115.64	1.11
Non-current assets	2	1,425.82	4,545.31	3,119.49	218.79
Of which:					
Fixed assets	3	1,294.94	4,042.32	2,747.38	212.16
Intangible assets	4	130.88	502.99	372.11	284.31
Total assets	5	11,798.66	15,033.79	3,235.13	27.42
Current liabilities	6	9,559.30	9,559.95	0.65	0.01
Non-current liabilities	7	—	—	—	—
Total liabilities	8	9,559.30	9,559.95	0.65	0.01
Net assets	9	2,239.36	5,473.84	3,234.48	144.44

This valuation is only intended for valuation purposes and uses stated in the valuation report and shall not be used for other purposes and uses. The certified public valuers and the appraisal company to which they belong shall not be held liable for consequences as a result of inappropriate use.

Without the consent of the appraisal company, the contents of the valuation report shall not be extracted, quoted or disclosed publicly in whole or in part.

The conclusion of this valuation report is valid for use for one year commencing from the date of valuation as at 28 February 2011 and expiring on 27 February 2012.

Special notes:

As at the date of valuation, a parcel of land is subject to a mortgage, with the mortgagee being the Kunming Branch of Heng Sang Bank (China) Limited and the mortgage period lasting from 23 February 2010 to 23 February 2015.

The total valuation amount of RMB54,738,400 as stated in this asset valuation report above has included an aggregate amount of accounts receivables of RMB20,039,300 as at 28 February 2011 (being the date of valuation). However, pursuant to the information and representation provided by the Company, and the sale and purchase agreement dated 28 October 2008 entered into between Jiwa Development Company Limited and Mr. Lau Yau Bor and Mr. Lau Kin Tung in relation to the acquisition of the entire issued share capital of Jiwa P&C at that time, such amount of accounts receivables shall belong to the previous shareholder(s) of Yunnan Jiwa (i.e. the then vendors) themselves instead of the Yunann Jiwa itself or its existing shareholder.

The above contents are extracted from the full text of the asset valuation report. To comprehensively understand the appraised items and valuation conclusion, please read the full text of the asset valuation report.

This valuation report is dated 14 March 2011.

In case of any discrepancy between the English version and the Chinese version of this valuation report, the Chinese version shall prevail.

Beijing Guo You Da Zheng Appraisal Company Limited

Legal representative: Chen Dong Mei

Certified Public Valuers: Li Jue Lin and Zhao Hai Hao

B. The following is the extract of the translated text of the valuation assumptions and explanation as shown in the full text of the Asset Valuation Report prepared by the Beijing Guo You, an independent valuer, in connection with its valuation of Yunnan Jiwa as at 28 February 2011. The following does not form any part of the Summary of the Asset Valuation Report set out in Part A of this appendix.

This valuation is based on the financial and accounting information and other information such as asset ownership certificates provided by Yunnan Jiwa. The appraised entity shall be responsible for the truthfulness, accuracy and completeness of the information so provided and the legality and validity of the asset ownership certificates.

After the valuation date, if there is any change in the quantity of the assets during the validity period of this valuation report, relevant adjustments to the asset value should be made by way of additions or subtractions, the value estimation of which shall be based on the original valuation methodology for that type of asset. If owing to special reasons which led to changes in the asset pricing standard and having significant influence on the asset valuation, the entrusting party shall request for re-determination of the appraised value by the appraisal institution in accordance with actual circumstances.

The scope of this valuation shall be confined to the assets and liabilities reported by Yunnan Jiwa, without taking into consideration the impact on the asset prices from the possible losses arising from the following economic activities:

- (v) contingent guarantee, the guarantee for other external parties in the name of the company or with its assets;
- (vi) liabilities not yet discovered and potential litigations;
- (vii) taxation obligation and default penalty, situation that the taxation authority demanding extra taxation charges and payment of default penalty;
- (viii) other contingent liabilities.

The book value arrived at in this asset valuation report is determined upon the accounting books and records and financial information provided by Yunnan Jiwa and is directly applied by us, we do not assume responsibility for the truthfulness and compliance of its accounting books and records and financial information.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long Positions in Shares and underlying Shares

Name of Director	Interest in underlying shares						% of total issued shares
	Personal interests	Family interests	Corporate interests	Total number of Shares held	pursuant to share options	Aggregate interest	
Lau Yau Bor	83,808,000 (Note 1)	115,752,000 (Note 2)	840,000,000 (Note 4)	1,039,560,000	—	1,039,560,000	64.57%
Lau Kin Tung	—	—	105,000,000 (Note 5)	105,000,000	30,000,000	135,000,000	8.39%
Chan Hing Ming	40,752,000 (Note 1)	923,808,000 (Note 3)	75,000,000 (Note 6)	1,039,560,000	—	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.

(b) Interest in options to subscribe for Shares

Pursuant to the Company's share option scheme, the Company has granted to certain Directors options to subscribe for Shares, details of such options outstanding as at the Latest Practicable Date were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price	Number of Shares subject to outstanding options as at the Latest Practicable Date	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
Lau Kin Tung	14 April 2008	14 April 2008 to 13 April 2013	0.18	15,000,000	0.93%
Lau Kin Tung	19 October 2010	19 October 2010 to 18 October 2015	0.58	15,000,000	0.93%

(c) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following person (other than the directors or chief executives of the Company) had an interest or short position in the shares and underlying shares of the Company as at the Latest Practicable Date which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Interests in issued Shares

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange, and none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of his/her associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group required to be disclosed pursuant to rule 8.10 of the Listing Rules other than those businesses to which the Directors were appointed to represent the interests of the Company and/or the Group.

6. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given their opinion or advices which are contained in this circular:

Name	Qualifications
BDO Limited	Certified Public Accountants
北京國友大正資產評估有限公司 (Beijing Guo You Da Zheng Appraisal Company Limited) ("Beijing Guo You")	An independent and qualified valuer in the PRC

As at the Latest Practicable Date, BDO Limited and Beijing Guo You:

- (a) did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any members of the Group since 31 March 2010, being the date up to which the latest published audited financial statements of the Group were made; and
- (c) had given and had not withdrawn their respective written consents to the issue of this circular with the inclusion of their respective letters and references to their respective name in the form and context in which they are included.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the date of this circular which are or may be material:

- (a) the capital injection agreement dated 16 February 2011 entered into between, among others, the Company and Green Grove Investment Ltd in relation to the investment of RMB183,710,000 by Green Grove Investment Ltd for a 20% equity interest in Kunming Jida;
- (b) the capital injection agreement dated 16 February 2011 entered into between, among others, the Company, Panda BT Limited, Mr. Yang Jian Xin and Mr. Li Hong Xiang in relation to the investment of RMB50,070,000, RMB23,210,000 and RMB18,570,000 by each of Panda BT Limited, Mr. Yang Jian Xin (or the relevant investment vehicle) and Mr. Li Hong Xiang (or the relevant investment vehicle) for a 5.5%, 2.5% and 2.0% equity interest in Kunming Jida, respectively;
- (c) the shareholder agreement dated 16 February 2011 entered into between, among others, the Company, Jiwa Pharmaceuticals Limited and Green Grove Investment Ltd regulating, among others, the repurchase obligations of the Company with respect to the relevant investor's interest in Kunming Jida if Kunming Jida does not achieve a listing within 48 months after the completion of the capital injection;

- (d) the shareholder agreement dated 16 February 2011 entered into between, among others, the Company, Jiwa Pharm, Panda, Mr. Yang and Mr. Li regulating, among others, the repurchase obligations of the Company with respect to the relevant investor's interest in Kunming Jida if Kunming Jida does not achieve a listing within 48 months after the completion of the capital injection;
- (e) the agreement dated 16 February 2011 entered into among the Company, Jiwa Rintech, Kunming Jida and Jiangsu Jiwa in relation to the Jiangsu Jiwa Disposal; and
- (f) the agreement dated 16 February 2011 entered into among the Company, Jiwa P&C, Kunming Jida and Yunnan Jiwa in relation to the Yunnan Jiwa Disposal.

8. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

On 1 September 2010, the Group, through Jiwa International Limited (as the tenant), entered into a tenancy agreement with Mr. Lau Yau Bor (being an executive Director and a substantial shareholder of the Company) (as the landlord) for leasing the premises located at Apartment A on 22nd Floor and Car Parking Space No. 7 on 4th Floor of Regal Crest, No. 9 Robinson Road, Hong Kong for two years commencing from 1 September 2010 to 31 August 2012 (both days inclusive) at a monthly rental of HK\$60,000.

Also on 1 September 2010, the Group, through Jiwa International Limited (as the tenant), entered into two tenancy agreements with Jiwa Investment Limited (as the landlord) which is wholly owned by Mr. Lau Yau Bor and Madam Chan Hing Ming (being the executive Directors and substantial shareholders of the Company) for leasing the following premises on the prescribed terms:

- Apartment A1 on 21st Floor and Car Park No. 21 on 4th Floor (Carpark Level 5), The Albany, No. 1 Albany Road, Hong Kong for two years commencing from 1 September 2010 to 31 August 2012 (both days inclusive) at a monthly rental of HK\$100,000; and
- Office 4, 29th Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong for two years commencing from 1 September 2010 to 31 August 2012 (both days inclusive) at a monthly rental of HK\$70,000.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2010 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement which is significant in relation to the business of the Group.

9. GENERAL

- (a) The secretary of the Company is Mr. Chu Kim Ho who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Clarendon house, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is 2904 & 2906, Tower One, Lippo Centre, 89 Queensway, Central.
- (c) The Hong Kong Branch Share Transfer Office of the Company is Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) In case of inconsistency, the English text of this circular and the accompanying proxy form shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at 2904 & 2906, Tower One, Lippo Centre, 89 Queensway, Central, Hong Kong during normal business hours on any business day up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

- (c) the annual reports of the Company for the two years ended 31 March 2010;
- (d) the financial information of the Disposed Group comprising Kunming Jida, Jiangsu Jiwa and Yunnan Jiwa set out in Appendices II to IV to this circular;
- (e) the report on review issued by the Company's auditors on the financial information of the Disposed Group;
- (f) the unaudited pro forma financial information of the Remaining Group set out in Appendix V to this circular;
- (g) the asset valuation report issued by Beijing Guo You on the book assets and liabilities for Jiangsu Jiwa, a summary of which as set out in Appendix VI to this circular;
- (h) the asset valuation report issued by Beijing Guo You on the book assets and liabilities for Yunnan Jiwa, a summary of which as set out in Appendix VII to this circular;
- (i) the written consents referred to in the paragraph headed "Experts and consents" in this appendix; and
- (j) this circular.

NOTICE OF SPECIAL GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN that a special general meeting of Jiwa Bio-Pharm Holdings Limited (the “**Company**”) will be held at Conference Room 3, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong at 11:00 a.m. on Tuesday, 29 March 2011 for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**, contingent upon the passing of the resolutions set out as Resolution 2 in the notice convening this meeting:
 - (a) the terms of (i) the capital injection agreement dated 16 February 2011 entered into among Kunming Jida Pharmaceutical Company Limited (“**Kunming Jida**”), Jiwa Pharmaceuticals Limited, Yunnan Pharmaceutical Industrial Holdings Company Limited and Green Grove Investment Ltd (a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) in relation to the allotment and issue of 20% equity interest in Kunming Jida to Green Grove Investment Ltd and (ii) the shareholders agreement dated 16 February 2011 entered into among the Company, Jiwa Pharmaceuticals Limited and Green Grove Investment Ltd (a copy of which has been produced to the meeting and marked “B” and initialled by the chairman of the meeting for the purpose of identification) in relation to certain investment arrangements between the Company and Green Grove Investment Ltd (collectively, the “**WP Transaction Documents**”), and the transactions contemplated thereunder and any other ancillary documents and all transactions contemplated thereunder be, and are hereby approved, confirmed and ratified;

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (b) the terms of (i) the capital injection agreement dated 16 February 2011 entered into among Kunming Jida, Jiwa Pharmaceuticals Limited, Yunnan Pharmaceutical Industrial Holdings Company Limited, Panda BT Limited, Mr. Yang Jian Xin and Mr. Li Hong Xiang (a copy of which has been produced to the meeting and marked “C” and initialled by the chairman of the meeting for the purpose of identification) in relation to the allotment and issue of 5.5%, 2.5% and 2.0% equity interest in Kunming Jida to each of Panda BT Limited, Mr. Yang Jian Xin (or the relevant investment vehicle) and Mr. Li Hong Xiang (or the relevant investment vehicle) respectively and (ii) the shareholders agreement dated 16 February 2011 entered into among the Company, Jiwa Pharmaceuticals Limited, Panda BT Limited, Mr. Yang Jian Xin and Mr. Li Hong Xiang in relation to certain investment arrangements between the Company and each of Panda BT Limited, Mr. Yang Jian Xin and Mr. Li Hong Xiang (a copy of which has been produced to the meeting and marked “D” and initialled by the chairman of the meeting for the purpose of identification) (collectively, with the WP Transaction Documents, the “**Capital Injection Documents**”), and the transactions contemplated thereunder and any other ancillary documents and all transactions contemplated thereunder be, and are hereby approved, confirmed and ratified;
- (c) the terms of (i) the Jiangsu Jiwa Disposal Agreement (as defined in the circular of the Company dated 16 February 2011 (the “**Circular**”)) in relation to the transfer of the equity interest in Jiangsu Jiwa (as defined in the Circular) by Jiwa Rintech (as defined in the Circular) to Kunming Jida and (ii) the Yunnan Jiwa Disposal Agreement (as defined in the Circular) dated 16 February 2011 in relation to the transfer of the equity interest in Yunnan Jiwa (as defined in the Circular) by Jiwa P&C (as defined in the Circular) to Kunming Jida (collectively, the “**Restructuring Documents**”) be and are hereby approved, confirmed and ratified;
- (d) the terms of the Repurchase Obligation (as defined in the Circular) be and are hereby approved, confirmed and ratified; and
- (e) any director of the Company be and is hereby authorised to do all such acts and things, to sign and execute all such documents or deeds and to take all such steps as the director may consider necessary, desirable or expedient to give effect to or in connection with the foregoing or any of the transactions contemplated thereunder and to make and agree on any change to the terms of the Capital Injection Documents and the Restructuring Documents as the director may in his/her absolute discretion consider desirable and in the interest of the Company.”

NOTICE OF SPECIAL GENERAL MEETING

2. “**THAT**, contingent upon the passing of the resolutions set out as Resolution 1 in the notice convening this meeting, the directors of the Company be hereby authorized to allot and issue up to a number of 241,500,000 new Shares (as defined in the circular of the Company dated 14 March 2011 (the “**Circular**”)) to the Subscribers (as defined in the Circular) or any of their respective nominees at a minimum issue price of HK\$0.65 per Share if the Company exercises its discretion and decides to issue New Shares in order to fulfill its obligations to repurchase the Subscribers’ equity interest in Kunming Jida (as defined in the Circular) in accordance with the terms of the relevant Shareholder Agreement (as defined in the Circular), in the event that Kunming Jida does not obtain a listing on a stock exchange within 48 months from the date of the completion of the capital injection under the Capital Injection Agreements (as defined in the Circular).”
3. “**THAT** the resignation of JPPB & CO as auditors of the Company be accepted, BDO Limited be appointed as auditors of the Company and the Directors be authorized to fix their remuneration.”

Yours faithfully,

For and on behalf of the Board

Jiwa Bio-Pharm Holdings Limited

Lau Kin Tung

Vice Chairman and Chief Executive Officer

Hong Kong, 14 March 2011

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:

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

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (i) Any member entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (ii) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (iii) To be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof.
- (iv) In the case of joint holders of a share, if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (v) As at the date of this notice, the executive Directors are Mr. Lau Yau Bor (the Chairman), Mr. Lau Kin Tung (the Vice Chairman and Chief Executive Officer), Madam Chan Hing Ming; and the independent non-executive Directors are Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa.