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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your securities in JIWA BIO-PHARM HOLDINGS LIMITED, you should at once hand this circular to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or to the 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)**

**DISCLOSEABLE TRANSACTIONS  
JOINT VENTURE IN MANUFACTURING  
PHARMACEUTICAL BULK MATERIALS  
AND  
INVESTMENT IN YUNNAN PHARMACEUTICAL MATERIALS LIMITED\***

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13 June 2005

\* For identification purpose only

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“Acquisition”	the acquisition of a 23.81% interest in YPML by the Company pursuant to the terms of the Share Transfer Agreement
“Board”	the board of Directors
“Capital Injection Agreement”	the agreement dated 25 May 2005 entered into between Jiwa Rintech, Party A, Party B and Party C in relation to the capital contribution by Party A and Jiwa Rintech in the PRC JV Company
“Company”	JIWA BIO-PHARM HOLDINGS LIMITED, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	the date of obtaining the approval from the relevant governmental authority in respect of the Acquisition and the approval in respect of the issue of the new business licence of YPML.
“CPMG”	中國藥材集團公司 (China Pharmaceutical Materials Group Company*)
“Directors”	the directors (including the independent non-executive directors) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jiwa Pharmaceuticals”	Jiwa Pharmaceuticals Limited
“Jiwa Rintech”	Jiwa Rintech Holdings Limited, a joint venture company established in the British Virgin Islands with limited liability and a subsidiary of and owned as to 80% by the Company
“Latest Practicable Date”	10 June 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Party A”	江陰市東方精細化工有限公司 (Jiangin Eastern Fine Chemical Company Limited*), a company established in the PRC

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## DEFINITIONS

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“Party B”	常州市眾聯肌醇有限公司 (Changzhou Zhonglian Inositol Company Limited*), a company established in the PRC
“Party C”	世華生物科技股份有限公司 (Shih Hwa Biotech Company Limited*) a company established in Taiwan
“PRC”	the People’s Republic of China (for the purpose of this circular, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan)
“PRC JV Company”	江蘇東順藥業有限公司 (Jiangsu Dongshun Pharmaceuticals Company Limited*), a company established in the PRC as a sino-foreign equity joint venture with limited liability, which will be renamed as 江蘇積華靈大製藥有限公司 (Jiangsu Jiwa Rintech Pharmaceuticals Company Limited*)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Transfer Agreement”	The agreement dated 26 May 2005 entered into between Jiwa Pharmaceuticals and the Vendor in respect of the Acquisition
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	雲南省藥材公司職工持股會 (Employees’ Shareholding Association of YPML*)
“YPGL”	雲南醫藥集團有限公司 (Yunna Pharmaceuticals Group Limited*)
“YPML”	雲南藥材有限公司 (Yunna Pharmaceutical Materials Limited*)
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	The lawful currency of the PRC
“%”	per cent.

*In this circular, the exchange rate of US\$1.00 to RMB1.06 is used.*

\* for identification purpose only

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## LETTER FROM THE BOARD

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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)*

*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. Fung Tze Wa

Mr. Soo Ping Shu, Samuel

Mr. Choy Ping Sheung

*Head office and principal*

*Place of business in*

*Hong Kong:*

Room 2904 & 2906

Tower One, Lippo Centre

89 Queensway, Central

Hong Kong

13 June 2005

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS  
JOINT VENTURE IN MANUFACTURING  
PHARMACEUTICAL BULK MATERIALS  
AND**

**INVESTMENT IN YUNNAN PHARMACEUTICAL MATERIALS LIMITED\***

#### **1. INTRODUCTION**

On 11 November 2004, the Board announced that Jiwa Rintech would construct a new plant in the PRC for the manufacture of pharmaceutical bulk materials. On 25 May 2005, the Board announced, pursuant to Rule 14.36 of the Listing Rules, that it had decided on 20 May 2005 to change the plan. After considering a number of options, the Directors considered that it is in the interest of the Company to invest in the PRC JV Company instead of constructing its own plant.

On 25 May 2005, Jiwa Rintech entered into the Capital Injection Agreement with Party A, Party B and Party C, pursuant to which Jiwa Rintech agreed to make a capital contribution of RMB24,000,000 (equivalent to approximately HK\$22.6 million) and Party A agreed to make an additional capital contribution of RMB172,300 (equivalent to approximately HK\$0.16 million) in the PRC JV Company. There is no restriction on subsequent disposal of interest by Jiwa Rintech.

\* For identification purpose only

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## LETTER FROM THE BOARD

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On 26 May 2005, Jiwa Pharmaceuticals entered into the Share Transfer Agreement with the Vendor, pursuant to which Jiwa Pharmaceuticals agreed to acquire from the Vendor a 23.81% interest in YPML for a consideration of RMB5,300,000 (equivalent to approximately HK\$5 million).

YPML is currently owned as to 54.76% by CPMG, as to 21.43% by YPGL and as to 23.81% by the Vendor. Upon completion of the Acquisition, YPML will be owned as to 54.76% by CPMG, as to 21.43% by YPGL and as to 23.81% by Jiwa Pharmaceuticals. There is no restriction on any subsequent disposal of the 23.81% shareholding interest in YPML by Jiwa Pharmaceuticals.

The investment of Jiwa Rintech in the PRC JV Company and the Acquisition, which are not inter-conditional, constitute discloseable transactions for the Company under the Listing Rules. In order to save the additional administrative costs involved, the Board decided to set out the details of the Capital Injection Agreement and the Acquisition in one circular. The purpose of this circular is to provide you with further information relating to the Capital Injection Agreement and the Acquisition.

## 2. THE CAPITAL INJECTION AGREEMENT

### (i) The Capital Injection Agreement

**Date:** 25 May 2005

**Parties:** (a) Jiwa Rintech  
(b) Party A  
(c) Party B  
(d) Party C

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, each of Party A, Party B, Party C and their respective ultimate beneficial owners is third party independent of the Group and connected persons (as defined in the Listing Rules) of the Group.

**Content:** Jiwa Rintech agreed to make a capital contribution of RMB24,000,000 (equivalent to approximately HK\$22.6 million) in the PRC JV Company and Party A agreed to make an additional capital contribution of RMB172,300 (equivalent to approximately HK\$0.16 million) in the PRC JV Company. The amount of contribution by Jiwa Rintech was determined with reference to the costs of setting up a new manufacturing plant in the PRC as contemplated by the Group. Party A agreed to contribute RMB172,300 so as to round up the registered capital of the PRC JV Company from RMB29,827,700 to RMB30,000,000.

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## LETTER FROM THE BOARD

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### (ii) Capital Contribution

The PRC JV Company was established in November 2003. As at the Latest Practicable Date, the registered capital of the PRC JV Company is as follows:

	<b>Capital</b> <i>(RMB)</i>	<b>Percentage</b> <i>(%)</i>
Party A	4,500,000	66.18
Party B	500,000	7.35
Party C	1,800,000	26.47
	<i>(see Note 1)</i>	
Total	6,800,000	100
	<i>(see Note 2)</i>	

- Notes: 1. The actual capital contributed by Party C is RMB827,700.
2. The total actual capital contributed by Party A, Party B and Party C is RMB5,827,700 as Party C has not completed its total capital contribution of RMB1,800,000 and the outstanding amount is RMB972,300.

The registered capital of the PRC JV Company upon completion of the capital contributions pursuant to the Capital Injection Agreement will be as follows:

	<b>Capital</b> <i>(RMB)</i>	<b>Percentage</b> <i>(%)</i>
Jiwa Rintech	24,000,000	80
Party A	4,672,300	15.57
Party B	500,000	1.67
Party C	827,700	2.76
Total	30,000,000	100

### (iii) Payment Terms

Party A and Jiwa Rintech will make the capital contributions in the PRC JV Company respectively within 3 months from the date of issue of the new business licence of the PRC JV Company. Jiwa Rintech will finance its capital contribution through internal resources.

### (iv) Conditions

The transactions contemplated under the Capital Injection Agreement are conditional, inter alia, on the followings:

1. all necessary approvals from the Ministry of Commerce of the People's Republic of China (中華人民共和國商務部) and the State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局) have been obtained;
2. the signing of the joint venture agreement and the articles of association of the PRC JV Company by Party A, Party B, Party C and Jiwa Rintech; and

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## LETTER FROM THE BOARD

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3. all necessary actions have been done by Party A, Party B, Party C and Jiwa Rintech in relation to, inter alia, approving the execution and performance of the Capital Injection Agreement and the increase of the registered capital of the PRC JV Company.

**(v) Other terms**

The board of directors of the PRC JV Company will comprise five directors, four of whom will be nominated by Jiwa Rintech and the remaining director will be nominated by Party A.

The PRC JV Company will become an indirect subsidiary of the Company and the results of the PRC JV Company will be consolidated in the Group's financial statements.

### 3. THE SHARE TRANSFER AGREEMENT

**(i) The Share Transfer Agreement**

**Date** 26 May 2005

**Parties**

**Vendor:** 雲南省藥材公司職工持股會 (Employees' Shareholding Association of YPML\*), a collective enterprise established in the PRC (see Note).

**Purchaser:** Jiwa Pharmaceuticals Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company.

*Note 1:* According to the opinion of the Company's PRC legal advisers, the Vendor, as a collective enterprise, does not enjoy the status of a legal person under the PRC laws. Since there is no laws or regulations governing transfer of shares by such collective enterprises in the PRC, the Company will bear a certain degree of risks when entering into the Share Transfer Agreement with the Vendor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendor and its ultimate beneficial owners is third party independent of the Group and connected persons (as defined in the Listing Rules) of the Group.

**(ii) Consideration**

The consideration payable by Jiwa Pharmaceuticals is RMB5,300,000 (equivalent to approximately HK\$5 million), which was arrived at after arm's length negotiations among the parties and has been determined with reference to the previous capital contribution by the Vendor at a discount. The Directors believe that since significant synergies can be created through the Acquisition, whereby the Group's business could be diversified by gaining access to technologies and know-hows relating to traditional Chinese pharmaceutical materials and traditional Chinese Medicines which are valuable to the Group in enhancing its research and development, the consideration is reasonable and fair.



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## LETTER FROM THE BOARD

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The unaudited net asset value of YPML as at 31 December 2004 is RMB13,260,069 (equivalent to approximately HK\$12.5 million).

The unaudited net loss before taxation and extraordinary items attributable to YPML for the two years ended 31 December 2003 and 31 December 2004 which was prepared in accordance with accounting principles generally accepted in the PRC is RMB6,626,160 (equivalent to approximately HK\$6.3 million) and RMB4,974,031 (equivalent to approximately HK\$4.7 million) respectively.

### **(iii) Payment Terms**

The consideration in respect of the Acquisition will be settled in 1 payment by Jiwa Pharmaceuticals in cash through internal resources within 5 business days immediately after Completion.

The Directors (including the independent non-executive Directors) consider that the Share Transfer Agreement has been agreed on normal commercial terms between the parties. The Directors (including the independent non-executive Directors) further consider that the terms of the Share Transfer Agreement are fair and reasonable so far as the Shareholders are concerned and the Share Transfer Agreement are in the interests of the Company and the Shareholders as a whole.

Since YPML will be an associate of the Company, the results of YPML will not be consolidated in the Group's financial statements, but will be accounted for using the equity accounting method.

### **(iv) Condition**

The Share Transfer Agreement is conditional upon the requisite governmental approvals and the relevant registration procedures with the relevant PRC authorities under the PRC laws in respect of the Acquisition as stated above being obtained or completed.

## **4. REASONS FOR THE TRANSACTIONS**

### **(i) The Capital Injection Agreement**

The Group is principally engaged in the research, development, manufacture and sale of pharmaceutical products, including new medicine and generic pharmaceutical products, and health-care products.

Jiwa Rintech is principally engaged in the research, development and manufacturing of pharmaceutical bulk materials.

Party A is principally engaged in the manufacture and process of fine chemical products. Party B is principally engaged in the manufacture and process of Inositol (肌醇) and bulk medicines of Oryzanol (谷維素原料藥), sale of feed additive (飼料添加劑), and purchase of rice sugar (米糖) and Calcium Phytate (植酸鈣). Party C is principally engaged in the manufacture and process of beverages and food.

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## LETTER FROM THE BOARD

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The manufacturing plant of the PRC JV Company has been under construction and not come into operation yet and will be principally engaged in the manufacturing of pharmaceutical products, including raw materials. The Directors expect that the plant will come into operation by the end of this year. The unaudited net asset value of the PRC JV Company which was prepared in accordance with accounting principles generally accepted in the PRC as at 28 February 2005 is RMB5,827,700. The Directors are of the view that investing in a manufacturing plant which has started the construction work would be more efficient and cost-effective than constructing its own plant since the Company does not need to spend extra money and time for planning and constructing a new plant. It is also of the Directors' view that Jiangsu, being the place in which the plant of the PRC JV Company is located, is a good place for developing bulk material manufacturing business in light of the well-established pharmaceutical supporting industry in the vicinity.

The Company has been reviewing various opportunities with an aim to diversify the variety of its products and to improve their quality. The Directors are of the view that the investment of the PRC JV Company would enable the Group to set up a PRC manufacturing plant of pharmaceutical products with Jiwa Rintech for export market in the United States and the management of the Jiwa Rintech's research experience in medicinal chemistry can help the Company with new product discovery and development, allowing the Company to avoid hiring staff or investing long-term resources in projects of uncertain potential.

The Directors considered that the terms of the Capital Injection Agreement are fair and reasonable and the Capital Injection Agreement is in the interests of the Company and its shareholders as a whole.

Upon completion of the Capital Injection Agreement, the consolidated total assets value of the Group will have an increase of approximately RMB28.3 million and the consolidated liabilities and minority interest of the Group will have an increase of approximately RMB22.8 million and RMB5.5 million respectively. Besides, as the PRC JV Company has not started its operation yet, there will not be any immediate effect on the earnings of the Group. Save as disclosed above, the entering into of the Capital Injection Agreement will not have any immediate effects on the earnings, assets and liabilities of the Group.

### **(ii) The Share Transfer Agreement**

The Group is principally engaged in the research, development, manufacture and sale of pharmaceutical products, including new medicine and generic pharmaceutical products, and health-care products.

YPML is principally engaged in the research, development, planting, manufacturing and sale of traditional Chinese pharmaceutical materials and traditional Chinese medicines.

The Vendor is a collective enterprise established in the PRC and is owned by 569 employees of YPML, holding 23.81% shareholding interests in YPML.

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## LETTER FROM THE BOARD

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With YPML's centralized merchandising system and extensive sales network in the PRC, the Directors are of the view that the Acquisition would represent a good opportunity for the Group to accelerate its expansion in the business of traditional Chinese pharmaceutical materials and medicines in the PRC. On the other hand, since the Share Transfer Agreement is conditional on the requisite governmental approvals and the relevant registration procedures with the relevant PRC authorities under the PRC laws in respect of the Acquisition as stated above being obtained or completed, the Directors consider that the risk regarding the legal status of the Vendor is minimal. In view of the above, the Directors consider that the benefits expected to be accrued to the Company outweigh the minimal risk regarding the legal status of the Vendor.

The Directors are also of the view that the terms of the Share Transfer Agreement are fair and reasonable and the Share Transfer Agreement are in the interests of the Company and its shareholders as a whole.

The Directors confirm that the investment in associate would accounted for using the equity accounting method in the consolidated financial statements of the Group and the transaction would be settled in cash. Besides, upon completion of the Share Transfer Agreement, there will not be any immediate effect on the earnings of the Group. Hence, the entering into of the Share Transfer Agreement will not have any immediate effects on the earnings, assets and liabilities of the Group.

### 5. FURTHER INFORMATION

Your attention is drawn to the general information set out in the appendix to this circular.

Yours faithfully  
For and on behalf of  
**JIWA BIO-PHARM HOLDINGS LIMITED**  
**Mr. Lau Kin Tung**  
*Vice Chairman and Chief Executive Officer*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, no Directors or chief executive of the Company, save as disclosed below, had or was deemed to have any interests or short positions 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 are deemed or taken 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 which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange:

### (i) Interests in issued Shares

Name of Director	Personal interests (Note 1)	Family interests	Share corporate interests	Total number of Shares held	% of total issued Shares
Lau Yau Bor	22,626,000	35,000,000 (Note 2)	280,000,000 (Note 4)	337,626,000	67.53%
Lau Kin Tung	2,266,000	–	35,000,000 (Note 5)	37,266,000	7.45%
Chan Hing Ming	–	280,000,000 (Note 3)	35,000,000 (Note 6)	315,000,000	63.00%

*Notes:*

- The Shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.
- These Shares are held by MINGS Development Holdings Limited which is wholly and beneficially owned by Chan Hing Ming, the spouse of Lau Yau Bor.
- These Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming.
- These Shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.
- These Shares are held by WHYS Holding Co. Ltd, the entire issued share capital of which is held by Lau Kin Tung.
- These Shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

**(ii) Interests in underlying Shares**

Name of Director	Nature	Capacity	Total number of underlying Shares	% of total issued Shares
Lau Yau Bor	share options <i>(Note)</i>	personal interest	5,000,000	1%
Lau Kin Tung	share options <i>(Note)</i>	personal interest	5,000,000	1%
Chan Hing Ming	share options <i>(Note)</i>	personal interest	5,000,000	1%

*Note:* The share options were granted under the share option scheme of the Company adopted on 24 September 2003.

**3. SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, as at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as is known to the Directors, no other person other than a Director whose interests are disclosed above, had 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, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any option in respect of such capital:

Name	Number of Shares held	% of the issued share capital
LAUs Holding Co Ltd <i>(Note 1)</i>	280,000,000	56%
MINGS Development Holdings Limited <i>(Note 2)</i>	35,000,000	7%
WHYS Holding Co Ltd <i>(Note 3)</i>	35,000,000	7%

*Notes:*

1. LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, is wholly owned by Lau Yau Bor.
2. MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, is wholly owned by Chan Hing Ming.
3. WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, is wholly owned by Lau Kin Tung.

**4. SERVICE CONTRACTS**

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

**5. LITIGATION**

No member of the Group was engaged in any litigation or arbitration proceedings of material importance as at the Latest Practicable Date and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**6. COMPETING INTEREST**

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or likely to compete with the business of the Group.

**7. MISCELLANEOUS**

- (a) The company secretary and the qualified accountant of the Company is Mr. Hoe York Joo, who is an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Association of Chartered Certified Accountants.
- (b) The principal share registrar and transfer office of the Company is The Bank of Bermuda Limited whose address is Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, Bermuda.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited whose address is Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.