

IMPORTANT

If you are in any doubt as to any aspect of this circular, 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 shares in Vital BioTech Holdings Limited, you should at once hand this circular to the purchaser or the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This circular will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the date of its posting.



VITAL BIOTECH HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Directors:

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AU YEUNG Ping Yuen, Terence
LIU Jin, James
TAO Lung

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Independent Non-executive Directors:

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29th August 2002

To the Shareholders

Dear Sir or Madam,

SCRIP DIVIDEND SCHEME IN RELATION TO THE INTERIM DIVIDEND FOR THE SIX MONTHS ENDED 30TH JUNE 2002

INTRODUCTION

On 9th August 2002, the Directors of Vital BioTech Holdings Limited (“Company”) recommended the payment of an interim dividend (“Interim Dividend”) of HK 1 cent per share of HK\$0.01 each in the capital of the Company (“Shares”) for the six months ended 30th June 2002, to be satisfied by way of a scrip dividend of new ordinary shares (“Scrip Shares”) with a cash option (“Scrip Dividend Scheme”), payable to shareholders of the Company (“Shareholders”) whose names were recorded on the register of members on 28th August 2002.

At the directors meeting of the Company held on 9th August 2002, the recommended Interim Dividend was approved and the Scrip Dividend Scheme was confirmed by the Directors immediately thereafter.

The purpose of this circular is to set out the procedures which apply in relation to the scheme and the action which should be taken by shareholders in relation thereto.

PARTICULARS OF THE SCRIP DIVIDEND SCHEME

Under the Scrip Dividend Scheme, each Shareholder has the choice of receiving:

- (a) HK 1 cent in cash as cash dividend for each Share held on 28th August 2002; or
- (b) an allotment of Scrip Shares credited as fully paid and having an aggregate market value (as determined below), save for adjustment for fractions, equal to the total amount of the Interim Dividend which such Shareholder could elect to receive in cash (new Shares will be allotted by way of capitalisation of profits to shareholders electing to receive Scrip Shares in lieu of cash dividend); or
- (c) a combination of partly in (a) and partly in (b) above.

The market value for calculating the number of Scrip Shares to be allotted to Shareholders pursuant to the Scrip Dividend Scheme was HK 30 cents per share, which was the average of the closing prices of HK 31.4 cents per share of the Company on the Stock Exchange for the 5 consecutive trading days ended 8th August 2002 less a 5% discount. Accordingly, the number of Scrip Shares which Shareholders will receive in respect of their shareholdings registered in their names at 28th August 2002 under the Scrip Dividend Scheme will be calculated as follows:

$$\begin{array}{l} \text{Number of Scrip Shares} \\ \text{to be allotted} \end{array} = \begin{array}{l} \text{Number of existing Shares} \\ \text{held on 28th August 2002} \end{array} \times \frac{\text{HK 1 cent}}{\text{HK 30 cents}}$$

If all Shareholders elect to receive their Interim Dividend entitlements in Scrip Shares, based on 1,200,000,000 Shares in issue on 9th August 2002, not more than 40,000,000 Scrip Shares will be issued under the Scrip Dividend Scheme, representing 3.33% of the issued share capital of the Company immediately before completion of the issue and allotment of the Scrip Shares. The number of Scrip Shares to be issued to each Shareholder will be rounded down to the nearest whole number. Fractional entitlements to Scrip Shares will not be allotted but will be aggregated and sold for the benefit of the Company.

The Scrip Shares will rank pari passu in all respects with the existing issued shares of the Company save that they will not be entitled to the Interim Dividend.

ADVANTAGES OF THE SCRIP DIVIDEND SCHEME

The Scrip Dividend Scheme will give Shareholders the opportunity to increase their investment in the Company at market value without incurring brokerage fees, stamp duty and related dealing costs. The Scrip Dividend Scheme will also be to the advantage of the Company because, to the extent that Shareholders do not elect to receive cash, in whole or in part, such cash as would otherwise have been paid to Shareholders will be retained as working capital by the Company.

FORM OF ELECTION

A form of election (“Cash Election Form”) for Shareholders to elect to receive the Interim Dividend in cash is enclosed with this circular.

Any Shareholder who wishes to receive only Shares in respect of his Interim Dividend entitlement need not complete the Cash Election Form. Any Shareholder who wishes to elect to receive cash in lieu of Shares in respect of his Interim Dividend entitlement, either in whole or in part, must complete the enclosed Cash Election Form and return it to the Company’s Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 11th September 2002. No acknowledgement of receipt of the Cash Election Form will be issued. **If any Shareholder signs the Cash Election Form but does not specify the number of Shares in respect of which he wishes to receive his Interim Dividend in cash or, if he elects to receive his Interim Dividend in cash in respect of a greater number of Shares than his registered holding, then in either case he will be deemed to have exercised his election of cash in respect of all the Shares registered in his name.**

SHAREHOLDERS IN THE UNITED STATES OF AMERICA, CANADA, MALAYSIA AND SINGAPORE

The Shares have not been registered under the applicable securities legislation of the United States of America, Canada, Malaysia and Singapore. The Directors considered that Shareholders whose registered addresses are in the United States of America or any of its territories or possessions, Canada, Malaysia and Singapore should not be permitted to participate in the Scrip Dividend Scheme and accordingly they will receive the Interim Dividend wholly in cash. No Cash Election Form will be sent to such Shareholders.

STOCK EXCHANGE LISTING AND DESPATCH OF DIVIDEND CHEQUES AND/OR SHARE CERTIFICATES FOR SCRIP SHARES

The Scrip Dividend Scheme is conditional upon listing approval being granted by the Stock Exchange in respect of the Scrip Shares to be issued pursuant thereto. Application will be made to the Listing Committee of the Stock Exchange for a listing of and permission to deal in the Scrip Shares. The relevant dividend cheques and/or share certificates for Scrip Shares are expected to be despatched at the risk of those entitled thereto on or about 18th September 2002 on which dealings of the Scrip Shares will commence.

The Shares of the Company are listed and dealt in on The Stock Exchange of Hong Kong Limited. Save as disclosed herein, no equity or debt securities of the Company are listed or dealt in on any other stock exchange nor is listing or permission to deal in on any other exchange being or proposed to be sought.

Dealings in the Shares may be settled through the Central Clearing and Settlement System and you should seek the advice of your stockbroker or other professional adviser for details of these settlement arrangements and how such settlement arrangements will affect your rights and interests.

RECOMMENDATION AND ADVICE

Whether or not it is to your advantage to elect to receive cash in lieu of Scrip Shares will depend upon your own individual circumstances and the decision in this regard, and all effects resulting therefrom, must be solely the responsibility of each Shareholder. **The last day on which shareholders will be entitled to select their desired form of dividends is Wednesday, 11th September 2002.** Shareholders should note that an acquisition of shares under the scheme may give rise to notification requirements under the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) for shareholders who have notifiable interests (under the SDI Ordinance, 10% or more interest in the issued share capital) in the Company. If any Shareholder is in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

Yours faithfully,
KO Sai Ying, Thomas
Chairman