



維奧生物科技控股有限公司

Vital BioTech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Listing by Introduction

Sponsor



Core Pacific - Yamaichi Capital Limited

**FOR INFORMATION ONLY**

**If you are in any doubt** about this document, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

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**LISTING BY WAY OF INTRODUCTION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF**



**Vital BioTech Holdings Limited**

**維奧生物科技控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**Stock Code: 1164**

**Sponsor**



**Core Pacific - Yamaichi Capital Limited**

**Financial adviser to the Company**

**CROSBY**

**Crosby Limited**

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This document is published in connection with the listing by way of introduction on the main board of the Stock Exchange of the entire issued share capital of Vital BioTech Holdings Limited (the “Company”) and contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Subsidiary Legislation V of Chapter 571 of the Laws of Hong Kong) and the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to the Company.

**This document does not constitute any offer of, nor is it calculated to invite any offers for, shares or other securities of the Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to the public. No new shares will be issued in connection with, or pursuant to, the publication of this document.**

**Your attention is drawn to the section headed “Risk factors” in this document.**

The shares of HK\$0.01 each in the share capital of the Company (the “Shares”) have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System (“CCASS”) with effect from 7 February 2002, the date on which the Shares commenced listing on the Growth Enterprise Market of the Stock Exchange. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continue compliance with the stock admission requirements of HKSCC by the Company, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board of the Stock Exchange commence. Necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

30 June 2003

## EXPECTED TIMETABLE

Despatch of circular, notice of the Extraordinary General Meeting and the related forms of proxy to the Shareholders .....	Monday, 30 June 2003
Despatch of the listing document in relation to the Introduction to the Shareholders .....	Monday, 30 June 2003
Latest time for lodgement of forms of proxy for the Extraordinary General Meeting .....	10:00 a.m. on Monday, 21 July 2003
Extraordinary General Meeting .....	10:00 a.m. on Wednesday, 23 July 2003
Announcement of the results of the Extraordinary General Meeting to be published in the The Standard (in English), in Hong Kong Economic Times (in Chinese) and on the GEM website .....	Thursday, 24 July 2003
Last day of dealings in Shares on GEM .....	Friday, 1 August 2003
Effective date of the withdrawal of listing of Shares on GEM .....	9:30 a.m. on Monday, 4 August 2003
Dealings in Shares on the Main Board expected to commence on .....	9:30 a.m. on Monday, 4 August 2003

*Notes:*

- (1) All time stated herein refer to Hong Kong local time.
- (2) Shareholders will be duly informed by public announcement of any changes to the above expected timetable.

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*The Company has not authorised anyone to provide you with information that is different from what is contained in this document.*

*Any information or representation not made in this document must not be relied on by you as having been authorised by the Company, the Sponsor, any of their respective directors, agents or advisers or any other person involved in the Introduction. The contents of the Company's website do not form part of this document.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this document. This is only a summary and does not contain all the information that may be important to you.*

*Terms used herein will bear the same meanings as those defined under the respective sections headed “Definitions” and “Glossary of technical terms” of this document.*

### THE BUSINESS

The Group is a fully integrated, multinational biopharmaceutical corporation engaged in the research, development, manufacture, sale and distribution of biopharmaceutical and conventional pharmaceutical products. Currently, the Group has business operations in Australia, Hong Kong, Macao and the PRC. With its research and development focus on downstream value adding biotechnology processing systems, the Group develops protein stabilisation and various drug delivery technologies which may be adapted to a wide range of applications, such as, in the areas of cytokines, probiotics and vaccine. In addition, the Group manufactures pharmaceutical products and distributes such products through its extensive distribution network in the PRC. This has provided the Group with a steady income stream during the Track Record Period.

During the Track Record Period, the Group has utilised its technologies to develop two products, namely, Opin which was originally developed for treatment of chronic erosive cervicitis by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) and subsequently acquired by the Group through the acquisition of Wuhan Weiao, and Spray-On Bandage, which was originally developed by Mr. Ko for wound protection. The two platform technologies commercialised and refined by the Group are the “Protein Stabilisation and Delivery (PSD)” technology and the polymer membrane based “Skin Drug Delivery System (SDDS)” technology. The PSD technology, jointly invented by Mr. Ko and Mr. Au Yeung, is built on a micro bio-encapsulation process. This allows products to be room temperature stable and enables them to be delivered via a non-injection route, e.g. through various mucosal surface of the body. The SDDS technology, invented by Mr. Ko, is used for delivering various chemical drugs through the skin-surface. Both technologies can be used to develop products for human and veterinary applications.

The Group, utilising its research and development capabilities, is co-operating and seeking to co-operate with a number of established pharmaceutical companies. Under such arrangements, the Group assists those companies to improve and expand the applications of their existing pharmaceutical products for existing and emerging markets with the intention of forming a closer business relationship with such companies at a later stage. This can be in the form of joint venture, licensing, service arrangement or joint development.

Since 2000, the Group has developed an extensive distribution network of pharmaceutical products in the PRC. Currently, the Group has 28 marketing and liaison offices strategically located in various major cities in the PRC to promote the Group’s products and to provide after-sales services. In order to penetrate into the vast PRC market at a faster pace and lower cost, the Group has also appointed distribution agents in the PRC to distribute its products.

The Directors believe that the Group is well-positioned to expand its business by utilising its competitive advantages as follows:

- proven research and development capabilities;
- established and extensive distribution network;
- GMP compliant production facilities;

## SUMMARY

- cost effectiveness;
- experienced management team;
- strategic segregation of functions in different locations; and
- unique platform technologies under patent applications.

### TRADING RECORD

The following is a summary of the consolidated results of the Group for the three years ended 31 December 2002 and for the three months ended 31 March 2003. The consolidated results of the Group for the three years ended 31 December 2002 have been extracted from the accountants' report set out in Appendix I to this document, except for the information relating to analysis of turnover and gross profit margin of the Group as shown in Notes (1) and (2) below, and prepared on the basis of preparation set out in the same accountants' report. The consolidated results of the Group for the three months ended 31 March 2003 have been extracted from the published unaudited quarterly report for the three months ended 31 March 2003.

	Audited			Unaudited
	Year ended 31 December			Three months ended
	2000	2001	2002	31 March 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover ( <i>Note 1</i> )	64,128	122,825	167,969	65,003
Cost of sales	(37,921)	(61,052)	(50,572)	(19,518)
Gross profit ( <i>Note 2</i> )	26,207	61,773	117,397	45,485
Other revenues	28	129	439	74
Selling and distribution expenses	(1,452)	(3,157)	(34,609)	(8,306)
Administrative expenses	(5,504)	(13,021)	(24,923)	(16,612)
Other operating expenses (net)	(2,146)	(3,226)	(4,094)	(2,908)
Operating profit	17,133	42,498	54,210	17,733
Finance costs	(1,836)	(3,399)	(4,903)	(1,455)
Profit before taxation	15,297	39,099	49,307	16,278
Taxation	(15)	(60)	(988)	(242)
Profit after taxation	15,282	39,039	48,319	16,036
Minority interests	(743)	(914)	(7,727)	(4,714)
Profit attributable to Shareholders	<u>14,539</u>	<u>38,125</u>	<u>40,592</u>	<u>11,322</u>
Dividends ( <i>Note 3</i> )	<u>–</u>	<u>–</u>	<u>24,273</u>	<u>–</u>
Earnings per Share ( <i>Note 4</i> )				
– basic	<u>1.51 cents</u>	<u>3.97 cents</u>	<u>3.43 cents</u>	<u>0.92 cents</u>
– diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>0.92 cents</u>

## SUMMARY

Notes:

- (1) Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes, where applicable, consultancy fee income and licence fee income. Breakdown of the Group's total turnover is as follows:

	For the year ended 31 December					
	2000		2001		2002	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sale of products						
Osteoform (in capsule form)	32,186	50.2	80,841	65.8	139,963	83.3
Opin (in tablet form)	29,335	45.7	38,442	31.3	24,359	14.5
Spray-on Bandage	1,621	2.5	–	–	–	–
Other products (Note i)	583	0.9	712	0.6	817	0.5
Consultancy fee (Note ii)	403	0.7	–	–	–	–
Licensing fee (Note iii)	–	–	2,830	2.3	2,830	1.7
<b>Total turnover</b>	<b><u>64,128</u></b>	<b><u>100</u></b>	<b><u>122,825</u></b>	<b><u>100</u></b>	<b><u>167,969</u></b>	<b><u>100</u></b>

Notes:

- (i) Other products comprise the residual OTC pharmaceutical products of Sichuan Pharmaceutical and Vitapharm Research.
- (ii) The Group acted as a consultant to provide advisory and consultancy service to other pharmaceutical companies and in return received a consultancy fee.
- (iii) The Group licensed its technology know-how to other pharmaceutical companies and in return received a licensing fee.
- (2) The gross profit margin analysis for the Track Record Period is as follows:–

	Osteoform HK\$'000	Opin HK\$'000	Other products HK\$'000	Consultancy fee HK\$'000	Licensing fee HK\$'000	Total HK\$'000
<b>Year ended 31 December 2000</b>						
Sales	32,186	29,335	2,204	403	–	64,128
Cost of sales	(19,770)	(16,201)	(1,950)	–	–	(37,921)
<b>Gross profit</b>	<b><u>12,416</u></b>	<b><u>13,134</u></b>	<b><u>254</u></b>	<b><u>403</u></b>	<b><u>–</u></b>	<b><u>26,207</u></b>
<b>Gross profit margin</b>	<b>38.6%</b>	<b>44.8%</b>	<b>11.5%</b>	<b>100%</b>	<b>–</b>	<b>40.9%</b>
<b>Year ended 31 December 2001</b>						
Sales	80,841	38,442	712	–	2,830	122,825
Cost of sales	(39,520)	(20,801)	(731)	–	–	(61,052)
<b>Gross profit</b>	<b><u>41,321</u></b>	<b><u>17,641</u></b>	<b><u>(19)</u></b>	<b><u>–</u></b>	<b><u>2,830</u></b>	<b><u>61,773</u></b>
<b>Gross profit margin</b>	<b>51.1%</b>	<b>45.8%</b>	<b>-3%</b>	<b>–</b>	<b>100%</b>	<b>50.3%</b>
<b>Year ended 31 December 2002</b>						
Sales	139,963	24,359	817	–	2,830	167,969
Cost of sales	(47,214)	(3,233)	(125)	–	–	(50,572)
<b>Gross profit</b>	<b><u>92,749</u></b>	<b><u>21,126</u></b>	<b><u>692</u></b>	<b><u>–</u></b>	<b><u>2,830</u></b>	<b><u>117,397</u></b>
<b>Gross profit margin</b>	<b>66.3%</b>	<b>86.7%</b>	<b>84.7%</b>	<b>–</b>	<b>100%</b>	<b>69.9%</b>



## SUMMARY

- (3) Dividends comprised an interim dividend of HK\$12,000,000 paid on 18 September 2002 and a final dividend of HK\$12,273,000 paid on 16 May 2003.

Interim dividend of approximately HK\$12,000,000 was settled partly by cash of approximately HK\$3,796,000 and partly by scrip Shares of approximately HK\$8,204,000.

Final dividend of approximately HK\$12,273,000 was settled partly by cash of approximately HK\$2,250,000 and partly by scrip Shares of approximately HK\$10,023,000.

- (4) Basic earnings per Share for the two years ended 31 December 2000 and 2001 are calculated based on the profit attributable to Shareholders of HK\$14,539,000 and HK\$38,125,000 respectively and on an aggregate of 960,000,000 Shares, comprising 3 Shares of HK\$0.10 each issued immediately after incorporation of the Company, 1,818,179 Shares issued upon the Group reorganisation together with 16,363,638 Shares issued as a result of the share split and 941,818,180 Shares issued pursuant to the capitalisation issue for the then Shareholders upon completion of the Group reorganisation, which were deemed to have been in issue since 1 January 2000. Basic earnings per Share for the year ended 31 December 2002 is calculated based on profit attributable to Shareholders of HK\$40,592,000 and on the weighted average number of 1,183,538,255 Shares in issue during the year. Basic earnings per Share for the three months ended 31 March 2003 is calculated based on profit attributable to Shareholders of HK\$11,322,000 and weighted average of 1,227,347,268 Shares in issue during the period.

There were no dilutive instruments outstanding for the two years ended 31 December 2000 and 2001. As the exercise price of the share options granted during the year ended 31 December 2002 was greater than the average market price of the Share, there was no dilution effect on earnings per Share for the year ended 31 December 2002. Diluted earnings per Share for the three months ended 31 March 2003 is based on the profit attributable to Shareholders of HK\$11,322,000 and 1,233,947,268 Shares which are the average number of 1,227,347,268 Shares in issue plus the weighted average of Shares deemed to be issued at no consideration if all outstanding dilutive options had been exercised during the period.

## FUTURE PLAN AND PROSPECTS

The Directors anticipate that demand for effective and affordable biopharmaceutical and conventional pharmaceutical products worldwide will continue to grow as a result of the growing worldwide population, improving living standard, longer life expectancy and general availability of data from the Human Genome Program. To capture anticipated growing opportunities, the Directors intend to:

- continue to enhance its existing products and develop new products which have significant market potential;
- establish strategic alliances for mutually beneficial partnerships;
- further enlarge its marketing and distribution network in the PRC;
- extend its presence into the international markets; and
- expand its production capacity and research and development capabilities.

## SUMMARY

### USE OF PROCEEDS FROM THE PLACING IN FEBRUARY 2002

The Company raised total net proceeds of approximately HK\$96.0 million from the Placing in February 2002. Set out below is the comparison of the Group's actual use of proceeds for the period since its listing on GEM in February 2002 and up to 31 December 2002, and its intended use of proceeds as stated in the Prospectus:

	<b>Intended use of proceeds as set out in the Prospectus <i>HK\$'000</i></b>	<b>Actual use of proceeds for the period from 7 February 2002 up to 31 December 2002 <i>HK\$'000</i></b>
• Establishment of new production lines in Chengdu, Sichuan Province (revised to the establishment of a GMP compliant plant in Wuhan)	18,000	18,000
• Construction of phase 1 of the research and development centre in Chengdu, Sichuan Province	27,000	16,000
• Research and development of biopharmaceutical and conventional pharmaceutical products	9,000	9,000
• Construction of the GLP/GMP standard research and development centre in Melbourne, Australia	11,000	4,300
Staff training before 30 June 2002	4,000	4,000
Network setup, promotion and market survey in the second half of 2002	5,000	5,000
Staff training, promotion and market survey in the first half of 2003	5,000	–
Promotion and market research in the second half of 2003	5,000	–
• Total expenditure on marketing strategies such as expansion of distribution network, staff training and market survey	19,000	9,000
• Remaining proceeds appropriated for working capital and the buffering expenses of HK\$6.4 million for staff recruitment and establishment of new production lines in the Group's production plant in Chengdu, Sichuan Province, the PRC	12,000	12,000
<b>Net fund raised/used</b>	<b>96,000</b>	<b>68,300</b>

# SUMMARY

## KEY FINANCIAL INFORMATION

Earnings per Share for the year ended 31 December 2002 ( <i>Note 1</i> ) .....	approximately 3.43 cents
Adjusted net tangible asset value per Share ( <i>Note 2</i> ) .....	approximately 14.11 cents
Board lot size .....	5,000 Shares

### Notes:

- (1) The calculation of the basic earnings per Share for the year 31 December 2002 is based on the consolidated profit attributable to Shareholders of HK\$40,592,000 and the weighted average number of 1,183,538,255 Shares in issue during the year.
- (2) The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" of this document and is based on 1,277,462,169 Shares in issue immediately following the Introduction, but taking no account of any Shares which may fall to be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue securities or repurchase Shares.

## RISK FACTORS

The Directors consider that the business of the Group is subject to a number of risk factors which may affect future results and are summarised as follows:

### Risks relating to the Group

- Reliance on contract with Pharmco;
- Trust arrangements in respect of Wuhan Weiao and Vitapharm Research;
- May not succeed in its patent applications for its platform technologies;
- Reliance on major suppliers;
- Reliance on major customers;
- Product concentration;
- Compliance with the GMP standards;
- Expiry of protection period;
- May not be able to successfully manage its expanding operations;
- Future success will depend on its ability to keep pace with the production methodology of the biotechnology and pharmaceutical industry in the PRC;
- Defective products or harmful effects from the consumption or use of the Group's products and lack of product liability insurance coverage may result in material liability and loss of market share;

## SUMMARY

- Limited insurance coverage;
- No assurance that new products will be successfully developed and/or approved by the relevant authority;
- Unsuccessful launch of new products may result in the inability to recover expenses incurred in developing new products;
- Reliance on the PRC market;
- Failure to protect and defend its intellectual property rights may adversely affect the Group's business;
- Renewal of certificates, permits and business licences;
- May not be able to attract and retain key management and technical personnel whom it needs for its success;
- Dividend policy;
- Non-inclusion of a profit forecast for the year ending 31 December 2003; and
- Profits generated by certain subsidiaries of the Company are either tax free or taxed at preferential rates under tax holidays granted by relevant tax authorities.

### **Risks relating to the industry**

- Slow down of the growth of the pharmaceutical industry in the PRC;
- Competition as a result of PRC's admission as a member of the WTO;
- Change in price control policy in the PRC may adversely affect the Group's profitability;
- Successful launch of substitutes to the Group's products may adversely affect the Group's profitability; and
- Change in advertisements control policy may adversely affect the profits and operation of the Group.

### **Risks relating to the PRC**

- Currency conversion and exchange control;
- Political, economic and social considerations;
- Legal consideration; and
- Environmental protection.

## **SUMMARY**

### **REASONS FOR THE INTRODUCTION**

Since the listing of the Shares on GEM on 7 February 2002, the business of the Group has grown steadily and the Group has gained an increased public profile. Nevertheless, the Directors consider that the listing of the Shares on the Main Board will enable the Group to gain further recognition from the investing public, in particular large scale institutional investors. The Directors also believe that the listing of the Shares on the Main Board will further increase the public profile and recognition of the Group. It will also help the Group in promoting its brand name, which is beneficial and complementary to the future growth and development of the Group.

## DEFINITIONS

*In this document, unless the context otherwise requires, the following words and expressions have the following meanings:*

“associate(s)”	the same meaning ascribed to in the Listing Rules
“Beshabar (BVI)”	Beshabar Trading Limited, a company incorporated in BVI on 22 April 1997, a wholly owned subsidiary of the Company
“Beshabar (HK)”	Beshabar Trading Limited (formerly known as Wise Shine Limited (運勝有限公司)), a company incorporated in Hong Kong on 25 August 2000, a wholly owned subsidiary of the Company
“Beshabar (Macao)”	Beshabar (Macao Commercial Offshore) Limited, a company incorporated in Macao on 18 March 2002, a wholly owned subsidiary of the Company
“Bright Future”	Bright Future Pharmaceutical Laboratories Limited, a company incorporated in Hong Kong on 2 September 1993 and beneficially owned by an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. This company was a registered joint venture partner of Wuhan Weiao holding 90% interest in the registered capital of Wuhan Weiao for and on behalf of Yugofoil pursuant to a trust arrangement, the particulars of which are more particularly described in the sections headed “Risk factors” and “Business” of this document
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Vital BioTech Holdings Limited (維奧生物科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 30 May 2001
“Controlling Shareholders”	Mr. Tao, Mr. Ko, Mr. Au Yeung, Mr. Liu and Perfect Develop

## DEFINITIONS

“CPY” or “Sponsor”	Core Pacific – Yamaichi Capital Limited, a company which is deemed under the SFO to be licensed for the regulated activities of dealing in and advising on securities, corporate finance and asset management, the sponsor of the Company to the Introduction
“Crosby” or “Financial Adviser”	Crosby Limited, a company which is deemed under the SFO to be licensed for the regulated activities of dealing in and advising on securities, corporate finance and asset management, the financial adviser of the Company to the Introduction
“Darsawye”	Darsawye Pty Ltd., a company incorporated in Victoria, Australia on 7 June 2002, a wholly owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held at 18th Floor, CRE Building, 303 Hennessy Road, Wanchai, Hong Kong on Wednesday, 23 July 2003 at 10:00 a.m. or any adjournment thereof
“Ever Power”	Ever Power Holding Inc., a company incorporated in BVI on 25 May 2001, a wholly owned subsidiary of the Company
“Farthinghoe”	Farthinghoe Enterprises Limited, a company incorporated in BVI on 1 September 1997, a wholly owned subsidiary of the Company
“Gainful Plan”	Gainful Plan Limited, a company incorporated in BVI on 25 May 2001, a wholly owned subsidiary of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Goldfield”	Goldfield Farming Agents Limited, a company incorporated in BVI on 29 April 1997, the entire issued share capital of which is owned by Mr. Ip Yu Chak, an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Group”	the Company and its subsidiaries or any of them or, where the context requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Introduction”	the proposed listing of the Shares on the Main Board by way of introduction pursuant to the Listing Rules
“King Laboratories”	King Laboratories Pty. Ltd., a trustee, together with WB Nominees, holding the entire issued share capital of Vitapharm Research for Mr. Ko who in turn held such shares on trust for Farthinghoe prior to the transfer of such shares back to Farthinghoe in August 2001
“Latest Practicable Date”	26 June 2003, being the latest practicable date before the printing of this document for ascertaining certain information in this document
“Listing Date”	the date on which dealings in the Shares on the Main Board commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macao”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Maxsun”	Maxsun International Limited (美新國際有限公司), a company incorporated in Hong Kong on 29 March 2000, a subsidiary owned as to 51% by the Company and the remaining 49% of the entire issued capital of Maxsun is beneficially owned as to 24% by Ms. Betty Wei Bai and 25% by Mr. Tze-Rou Kuo. Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are the beneficial owners of the entire issued share capital of Pharmco, one of the top five suppliers of the Group during the Track Record Period
“Mr. Au Yeung”	Mr. Au Yeung Ping Yuen, Terence, the Vice-chairman and an executive Director
“Mr. Ko”	Mr. Ko Sai Ying, Thomas, the Chairman of the Company and an executive Director
“Mr. Liu”	Mr. Liu Jin, James, an executive Director



## DEFINITIONS

“Mr. Tao”	Mr. Tao Lung, an executive Director
“Perfect Develop”	Perfect Develop Holding Inc., a company incorporated in BVI on 3 August 2001 and the entire issued share capital of which is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 12% by Mr. Liu and 6% by Mr. Au Yeung. Perfect Develop is an investment holding company
“Pernanga”	Pernanga Agents Limited, a company incorporated in BVI on 29 April 1997 and the entire issued share capital of which is owned by Mr. Yeung Wing Sang, an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Pharmco”	Pharmco International Inc., a corporation carrying on business under the name of IMAX International, was founded in 1989 in Dallas, Texas, the US and engaged in the trading of pharmaceutical products. Pharmco is the sole supplier of Osteoform powder to the Group. The entire issued share capital of Pharmco is beneficially owned as to 50% and 50% by Ms. Betty Wei Bai and Mr. Tze-Rou Kuo respectively
“Placing”	the placing of 240,000,000 new Shares pursuant to the Prospectus
“Proposed Share Option Scheme”	the share option scheme proposed to be adopted at the Extraordinary General Meeting, the principal terms of which are summarised in the paragraph headed “Proposed Share Option Scheme” in Appendix IV to this document
“Prospectus”	the prospectus of the Company dated 30 January 2002 in connection with the listing of the Shares on GEM by way of placing
“PRC” or “China mainland”	the People’s Republic of China, and except where the context requires, references in this document to the PRC or China mainland do not include Hong Kong, Macao and Taiwan

## DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFDA”	State Food and Drug Administration (國家食品藥品監督管理局), the PRC (being the authority under the State Council, which (1) monitors and supervises the research, manufacture, distribution and use of pharmaceutical products and medical appliances and equipment; (2) monitors the safety administration of food, health food and cosmetics, investigates and handles significant accidents of these products; and (3) approves and permits the manufacturing of health food. According to the Decision on Reform of the State Council’s Organization (關於國務院機構議草議案的決定) promulgated by the National People’s Congress on 10 March 2003, SFDA was founded on the basis of State Drug Administration (國家藥品監督管理局)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Share Option Scheme”	the share option scheme approved and adopted by the Company on 26 January 2002
“Sichuan Pharmaceutical”	Vital Pharmaceuticals (Sichuan) Co., Ltd. (四川維奧製藥有限公司) (formerly known as Sichuan Weiao Pharmacy Co., Ltd. (四川維奧製藥有限公司) prior to 2 June 2003 and known as Sichuan Kangbai Pharmacy Co., Ltd. prior to 19 July 2001), a sino-foreign equity joint venture established in the PRC on 8 January 1998, a subsidiary owned as to 85% by the Company. The remaining 15% of the registered capital of Sichuan Pharmaceutical is beneficially owned by Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. (四川康奧醫藥科技開發有限責任公司), a private enterprise incorporated in the PRC and owned by independent third parties not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Sichuan Research”	Vital (Sichuan) Biotech Co., Ltd. (維奧(四川)生物技術有限公司), a wholly foreign owned enterprise established in the PRC on 25 July 2001, and a wholly owned subsidiary of the Company
“Sino Lion”	Sino Lion Capital Inc, a company incorporated in BVI on 23 July 2002, a wholly owned subsidiary of the Company. This company is the direct investment holding company of Beshabar (Macao)

## DEFINITIONS

“Sino Metro”	Sino Metro Development Limited, a company incorporated in BVI on 23 January 2003, a wholly owned subsidiary of the Company
“State Council”	the State Council of the PRC (中國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three financial years ended 31 December 2002
“UK”	the United Kingdom
“US”	the United States of America
“Vital BioTech (Hong Kong)”	Vital BioTech (Hong Kong) Company Limited, a company incorporated in Hong Kong on 17 November 2000, a wholly owned subsidiary of the Company
“Vital BioTech (Shanghai)”	Vital BioTech (Shanghai) Company Limited (維奧生物科技諮詢(上海)有限公司), a wholly foreign owned enterprise established in the PRC on 3 April 2003, and a wholly owned subsidiary of the Company
“Vitapharm Research”	Vitapharm Research Pty. Ltd, a company incorporated in Victoria, Australia on 1 April 1998, a wholly owned subsidiary of the Company
“WB Nominees”	WB Nominees Pty. Ltd., a trustee, together with King Laboratories, holding the entire issued share capital of Vitapharm Research for Mr. Ko who in turn held such shares on trust for Farthinghoe prior to the transfer of such shares back to Farthinghoe in August 2001
“Wide Triumph”	Wide Triumph Limited (弘勝有限公司), a company incorporated in Hong Kong on 1 February 2002, a wholly owned subsidiary of the Company
“WTO”	World Trade Organisation

## DEFINITIONS

“Wuhan Weiao”	Wuhan Weiao Pharmaceuticals Co., Ltd. (武漢維奧製藥有限公司) (formerly known as Wuhan Tianao Pharmaceuticals Co., Ltd. (武漢天奧製藥有限公司)), a sino-foreign equity joint venture established in the PRC on 30 October 1996 and a subsidiary owned as to 95% by the Company. The remaining 5% of the registered capital of Wuhan Weiao is beneficially owned by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) which is a wholly owned subsidiary of a state-owned enterprise in the PRC. Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) and its holding company, Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所) are independent third parties not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Yugofoil”	Yugofoil Holdings Limited, a company incorporated in BVI on 11 May 1993, a wholly owned subsidiary of the Company
“AUD” or “Australian dollars”	Australian dollars, the lawful currency of Australia
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“MOP”	Macao Pataca, the lawful currency of Macao
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“USD”, “US\$” or “US dollars”	United States dollars, the lawful currency of the US
“sq. ft.”	square feet
“sq. m.”	square metres
“%”	per cent.
“°C”	degree celsius
“Kg” and “g”	Kilogram and gram respectively

Unless otherwise specified in this document, amounts denominated in AUD, RMB or USD have been converted, for the purpose of illustration only, into HK\$ at the following rates:

AUD1.00 = HK\$4.00

RMB106 = HK\$100

US\$1.00 = HK\$7.80

No representation and warranty is made that any amounts in AUD, RMB or USD could have been or could be converted at the above rates or at any other rates or at all.

## GLOSSARY OF TECHNICAL TERMS

“bifidus”	a type of beneficial bacteria habitating in the gastrointestinal tract which help to maintain a stable intestinal microbial ecological environment
“biotechnology”	biotechnology is the technique that uses biological processes and other technology to extract or reconstruct living organism (including animals, plant and micro-organism) or its components, cells and tissues for specific uses. Biotechnology comprises genetic engineering (including protein engineering), fermentation engineering and enzyme engineering. Biotechnology has wide medical and industrial applications which help human beings to ease problems such as disease and environmental pollution
“biopharmaceutical products”	pharmaceutical products produced from biotechnological process
“calcium supplement”	a pharmaceutical preparation intended for the supply of calcium for our body needs
“cervicitis”	inflammation of the cervic
“DNA”	deoxyribonucleic acid, which is the basic building unit of the genes
“E. coli”	Escherichia coli, a rod-shaped bacteria commonly found in our intestine and fecal matters
“EPO”	erythropoietin, a naturally occurring biological protein naturally produced by the kidney acting as a biological signal for the body to produce red blood cells
“generic drugs”	drugs being manufactured with ingredient equivalent to the original patented drugs, which are usually sold using the generic name to identify the active ingredient of the original patented drugs as a result of the expiry of the patent of the original patented drugs
“genetic engineering”	general term covering the use of various experimental techniques to produce molecules of DNA containing new genes or novel combinations of genes, usually for insertion into a host cell for cloning

## GLOSSARY OF TECHNICAL TERMS

“GLP”	Good Laboratory Practice – when applied to the pharmaceutical industry, Good Laboratory Practice is a set of statutory quality system requirements concerned with the organisational process and the conditions under which drug research studies are planned, performed, monitored, recorded, archived and reported. In the PRC, the regulation is administrated by the SFDA under the 1999 Measures for the Management of Registration of Drug Research Institutions (藥品研究機構登記備案管理辦法) and Guide on Qualitative Management of Non-Clinical Research on Drugs (藥品非臨床研究質量管理規範). It is one of the prerequisite qualifications for all institutes in submitting to or preparing data for the SFDA for clinical study or drug registration
“glycoprotein”	an organic compound composed of both a protein and a carbohydrate joined together in covalent chemical linkage. These structures occur in many life forms; they are prevalent and important in mammalian tissues. The attached carbohydrate may have several effects: it may help the protein to fold in the proper geometry, stabilise the protein, affect physical properties such as solubility or viscosity, helps it to orient correctly in a membrane, or make it recognisable to another biochemical or cell
“GMP”	Good Manufacturing Practice, which are guidelines and regulations from time to time issued pursuant to the law of the local health authority on the administration of pharmaceuticals as part of quality assurance to ensure that pharmaceutical products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use. The detail standard varies from country to country depending on available resources
“Human Genome Program”	an international co-ordinated programme aimed at characterising all human genetic materials by determining the complete sequence of the DNA in the human genome and rendering such information accessible for further biological studies
“IU”	International Unit

## GLOSSARY OF TECHNICAL TERMS

“interferon”	a glycoproteins, classified as cytokines, which contribute to the body’s natural defenses against foreign substances. They are produced and secreted naturally by human cells in response to viruses and other microbes, tumours, and antigens (foreign substances which can cause the production of antibodies). Interferons bind to specific receptors on cell surfaces. This binding initiates a series of events, including induction of specific proteins, which produce antiviral, antiproliferative, and other actions controlling the immune system. Four major classes of human interferons have been identified: alpha, beta, gamma and omega
“Internet”	an international network that links together computers and allows data to be transferred between each computer. These computers are called the servers and individual users can use a modem to connect to the server computer and have access to the international network. No one person or company controls the Internet. Historically, the Internet was developed by the US Department of Defense
“lactobacillus”	milk bacteria, normally found in the mouth, intestinal tract and vagina
“medicine”	the art and science of preventing, diagnosing and treating disease, as well as the maintenance of health
“micro bio-encapsulation”	the formation of encapsulated particulars in microscopic scale with biological activity
“Opin”	the brandname of an interferon based vaginal pessary produced by the Group with indication for chronic viral cervicitis
“Osteoform”	the brandname of a calcium amino acid chelate based capsule with indication for osteoporosis and calcium deficiency. Osteoform is a supplement of calcium, trace minerals, vitamin D3 and vitamin C
“OTC”	over-the-counter
“OTC products”	health or pharmaceutical products that can be purchased over-the-counter without prescription
“PCR”	Polymerase Chain Reaction

## GLOSSARY OF TECHNICAL TERMS

“peptide”	refers to organic compound composed of amino acids linked together chemically by peptide bonds. Small peptides with fewer than about ten constituent amino acids are called oligopeptides, and peptides with more than ten amino acids are termed polypeptides. Compounds with molecular weights of more than 10,000 deltons (50-100 amino acids) are usually termed proteins
“pharmaceutical”	the practice of producing drugs
“probiotics”	a type of health products for the purpose of allowing an individual to ingest live beneficial bacteria so that a stable intestinal microbial ecological environment can be maintained
“Protein Stabilisation Delivery” or “PSD”	a platform technology jointly invented by Mr. Ko and Mr. Au Yeung and subsequently commercialised by the Group. It utilizes a micro bio-encapsulation process and allows protein products to be room temperature stable and deliverable via a non-injection route
“Skin Drug Delivery System” or “SDDS”	a platform technology invented by Mr. Ko and subsequently commercialised by the Group. It is used for delivering chemical drugs through the skin surface by means of a polymer membrane
“Spray-On Bandage”	the name of a polymer based dermal delivery system product produced by the Company as a first-aid device. When sprayed on a wound surface, the product forms an artificial skin covering and disinfecting the wound
“tablets”	solid dosage forms of varying weight, size and shape which may be moulded or compressed, and which contain a medical substance in pure or diluted form
“therapeutic medication”	pharmaceutical preparation with a therapeutic indication
“vaccine”	suspensions of killed or attenuated micro-organisms (bacteria or viruses) or, of antigenic proteins derived from them, administered for prevention, amelioration, or treatment of infectious diseases
“western drugs” or “drugs”	compounds that may be used or administered to human or animals as an aid in the diagnosis, treatment, or prevention of disease or other abnormal condition, for the relief of pain or suffering, or to control or improve any physiologic or pathological condition



## RISK FACTORS

### RISKS RELATING TO THE GROUP

#### Reliance on contract with Pharmco

A substantial proportion of the Group's revenue is derived from the sale of Osteoform. For the three years ended 31 December 2002, the turnover generated from the sales of Osteoform was approximately HK\$32.2 million, HK\$80.8 million and HK\$140.0 million respectively, and represented approximately 50.2%, 65.8% and 83.3% respectively, of the Group's total turnover. The business relationship between the Group and Pharmco has been established since 1997 and a marketing and distribution agreement had been entered into between the Group and Pharmco on 26 December 2000 (the "Marketing and Distribution Agreement") and terminated upon the entering of a new marketing and distribution agreement dated 31 May 2002 (the "New Marketing and Distribution Agreement"). Currently, the Group has the exclusive distribution right of Osteoform in the scheduled territories including the PRC and Asia for a term of 20 years under the New Marketing and Distribution Agreement which will expire on 31 May 2022. Pursuant to the New Marketing and Distribution Agreement, the Group agreed to purchase Osteoform powder exclusively from Pharmco. Under the terms of the New Marketing and Distribution Agreement, if the Group fails to purchase the minimum quantities per annum as agreed, or is otherwise in breach of the agreement, Pharmco may have a right to terminate the agreement by giving written notice to the Group within thirty days following the end of each calendar year. The minimum quantities of Osteoform powder which the Group shall purchase from Pharmco for each calendar year are as follows:

Calendar Year	Quota
2002	164,102 kilogrammes
2003	194,872 kilogrammes
2004	225,641 kilogrammes
2005	256,410 kilogrammes
2006 and each calendar year thereafter for the duration of the term	287,180 kilogrammes

For the three years ended 31 December 2002, aggregate purchases made by the Group from Pharmco amounted to approximately HK\$12,928,000, HK\$21,258,000 and HK\$37,072,000 respectively, representing approximately 43%, 43% and 55% respectively of the Group's total purchases for these periods. Up to the Latest Practicable Date, the Group has met all relevant requirements under the New Marketing and Distribution Agreement.

The beneficial owners of the entire issued share capital of Pharmco, Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are the holders of 49% interest in Maxsun and accordingly Pharmco is a connected person of the Company under the Listing Rules. The purchases of Osteoform powder from Pharmco by the Group constitute connected transactions under Chapter 14 of the Listing Rules, further particulars on the connected transactions are set out in the paragraph headed "Continuing connected transactions" in the section headed "Business" of this document.

There is no assurance that the New Marketing and Distribution Agreement with Pharmco will not be terminated during its subsistence or will be renewed upon its expiry. Furthermore, Pharmco has a unilateral discretion under the agreement to amend the schedule of territories within which the Group is entitled to the exclusive distribution right of Osteoform. The scheduled territories are currently Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macao, Malaysia, New Zealand, North Korea, the PRC, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand

## RISK FACTORS

and Vietnam. In the event that the Group is unable to continue to secure the exclusive distribution right of Osteoform, or loses its exclusive distributorship right for the PRC, its business performance and profitability will be adversely affected.

### **Trust arrangements in respect of Wuhan Weiao and Vitapharm Research**

Yugofoil has a 95% attributable interest in Wuhan Weiao. In October 1998, Yugofoil acquired from Bright Future a 70% interest in Wuhan Weiao for a consideration of HK\$500,000, which was paid by Mr. Tao in cash to Mr. Chan Chak Yeung, a shareholder of Bright Future until 1995 and a director of Bright Future since 1994. The 70% interest was held by Bright Future on trust for Yugofoil pursuant to a trust agreement between Yugofoil and Bright Future dated 10 November 1998 (the "Trust Agreement"). Subsequently in July and October 1999, Yugofoil, through Bright Future, further acquired, in aggregate, a 20% interest in Wuhan Weiao from the PRC joint venture partners for a total consideration of RMB2,050,000. Pursuant to the Trust Agreement and an agreement between Yugofoil and Bright Future dated 15 September 2000, Bright Future transferred the 90% interest back to Yugofoil as the beneficial owner and no consideration was paid to Bright Future for the transfer, thereby terminating the Trust Agreement. The transfer was approved by the relevant PRC authorities. Yugofoil further acquired a 5% interest in Wuhan Weiao from the PRC joint venture partner in January 2001.

The PRC legal advisers to the Company have confirmed that (a) although the Trust Agreement was not entered into under the laws of the PRC, which require that any changes in the shareholding of a foreign investment company should be approved by and registered with the relevant PRC authorities, the trust arrangement would normally be respected by the PRC authorities in the absence of disputes between the parties thereto, as it did not contravene any jus cogens of the laws of the PRC; (b) even if Bright Future now claims any entitlement to the interests in Wuhan Weiao against Yugofoil, it would be time-barred under the laws of the PRC; and (c) under the laws of the PRC, there would not be any substantial legal risks in Yugofoil's interests obtained under such trust arrangement.

Notwithstanding the foregoing, in the event that the Trust Agreement is not recognised or is invalid or unenforceable under the PRC laws or any other applicable laws, the consolidated results of the Group would have to be adjusted to take into account the 90% interest held by Bright Future during the Track Record Period.

In April 1998, Vitapharm Research was incorporated in Victoria, Australia with its entire issued share capital beneficially held by Mr. Ko, Mr. Liu and Mr. Au Yeung as to 33.33%, 33.34% and 33.33% respectively. Such beneficial interests were held through trust arrangements which involved, first, declarations of trust dated 1 April 1998 by King Laboratories and WB Nominees in favour of Mr. Ko in respect of the 20 issued shares of AUD1 (approximately HK\$4) each in Vitapharm Research (representing the entire issued share capital of Vitapharm Research) and second, declarations of trust dated 1 April 1998 by Mr. Ko in respect of those 20 issued shares in favour of Farthinghoe. Accordingly, the 20 issued shares in Vitapharm Research have at all times been held by the trustees, King Laboratories, WB Nominees and Mr. Ko upon trust for Farthinghoe, the ultimate beneficial owner. In this connection, the Group has obtained Australian legal advice confirming that under the State law of Victoria, the declarations of trust are valid and binding in accordance with their terms and entitle Farthinghoe to require transfer of shares to it, and also that the declarations of trust are not chargeable with stamp duty under the State law of Victoria. The transfer of shares pursuant to the declarations of trust have also been properly denoted by the State Revenue Office of Victoria, Australia as not stampable. In August 2001, the shares of Vitapharm

## **RISK FACTORS**

Research held by King Laboratories and WB Nominees were transferred back to Farthinghoe, whose name was thereafter entered into the register of members of Vitapharm Research.

Notwithstanding the foregoing, if the trust arrangement in respect of Vitapharm Research is not recognised or is invalid or unenforceable under any applicable laws, the results of Vitapharm Research could not be consolidated with the results of the Group during the Track Record Period.

The Controlling Shareholders have entered into a deed of indemnity dated 30 January 2002 with and in favour of the Company to provide indemnities on a joint and several basis, among other matters, against any depletion in value of assets, costs, fees, expenses, claims, losses, liabilities and proceedings which might be incurred or suffered by any member of the Group as a result of the Trust Agreement in respect of the Group's interests in Wuhan Weiao or the trust arrangement in respect of Vitapharm Research being declared or determined by any court or relevant government authority to be illegal, invalid or unenforceable.

### **May not succeed in its patent applications for its platform technologies**

To protect its platform technologies, the Group has filed patent applications in various countries and regions, including Australia, Taiwan, the US, Europe, Japan and the PRC. An International Patent Application is also pending for the PSD technology. Details of the applications are set out in the Appendix IV headed "General information" to this document. The various patent applications are either awaiting or undergoing patent examination in the respective countries of filing. The patent examination process can be quite rigorous, and may require amendment or limitation of patent claims. There can be no guarantee of success of any particular patent application in any particular country. In those countries where the Group is not successful in obtaining patent protection for the platform technologies, other pharmaceutical manufacturers may be able to exploit the non-patented technology. This in turn may subject the Group to more intense market competition in those countries, which may materially affect its business performance.

### **Reliance on major suppliers**

During the three years ended 31 December 2002, the largest supplier of the Group accounted for approximately 43%, 43% and 55% respectively of the Group's total purchase. For the three years ended 31 December 2002, the Group purchased Osteoform powder from Pharmco and Pharmco became the largest supplier to the Group for these periods. Pursuant to the New Marketing and Distribution Agreement entered into between the Group and Pharmco on 31 May 2002, the Group agreed to purchase Osteoform powder exclusively from Pharmco. Apart from that, the Group has not entered into any other exclusive purchase agreement with any of its suppliers, and has not entered into any long term contracts with its suppliers. In the past, the Group has not encountered any production disruption due to the shortage of supply of raw materials. The Directors believe that all the principal raw materials used by the Group can be purchased from a number of other suppliers at prices comparable to those paid to the Group's current suppliers. Nevertheless, if the Group encounters any production disruption due to a shortage of supply of major raw materials, the production and business performance of the Group will be adversely affected.

### **Reliance on major customers**

During the three years ended 31 December 2002, the Group's largest customer accounted for approximately 45%, 35% and 52%, respectively of the Group's total turnover; whilst the Group's five largest customers accounted for approximately 86%, 80% and 96% respectively of the

## RISK FACTORS

Group's aggregate turnover. The reason for such a high concentration of customers is the reliance on sales to distributors. The Directors believe that the increase of the percentage of sales to the major customers during the Track Record Period was mainly attributed to the adjustment of the Group's distribution strategy to concentrate the marketing effort on major distributors instead of minor distributors. Since November 2000, the Group has been distributing Opin through independent distributors. In January 2001, the Group established its own distribution network in the PRC for Opin and since then, the Group has been distributing Opin to end-users through its own sales and marketing team and independent distributors. As regards Osteoform, the Group has been distributing through independent distributors since October 2000. In the event that these distributors fail to purchase products in sufficient volume or at all from the Group, the Group's business and profitability may be adversely affected.

### **Product concentration**

For the three years ended 31 December 2002, the sales of Osteoform were approximately HK\$32.2 million, HK\$80.8 million and HK\$140.0 million respectively and accounted for approximately 50.2%, 65.8% and 83.3% of the Group's total turnover in the respective years. Since the Group's income was, to a large extent, reliant upon the sales of Osteoform, any unanticipated disruption of the production process or deterioration of the sales of such product would adversely affect the financial performance of the Group.

### **Compliance with the GMP standards**

Since 1988, the Ministry of Health, the PRC (中國國家衛生部) has started to require the pharmaceutical manufacturing enterprises in the PRC to satisfy the GMP standards. In 1999, the SFDA issued the Notice on the Guidelines on Good Manufacturing Practice (the "Notice") (關於重申實施(藥品生產質量管理規範)有關規定的通知), which requires, among other matters, manufacturers of certain kinds of pharmaceutical products to comply with the GMP standards within the time limit stipulated by the SFDA. If these manufacturers do not obtain GMP certification within the stipulated time limit, their Pharmaceutical Manufacturing Enterprise Permit will not be renewed and the production of such pharmaceutical products will have to cease. Details of the GMP standards are set out in the paragraph headed "GMP" under the section headed "Industry overview" of this document.

In October 2001, the SFDA announced various deadlines for different categories of pharmaceutical manufacturers to comply with the GMP standards. The Group's products fall into the general category of "pharmaceutical products and raw materials" for which the deadline for compliance with the GMP standards is 30 June 2004. The Group has a production plant in Chengdu City, Sichuan Province, the PRC, which has obtained GMP certification in December 2001. However, the existing production plant in Wuhan, the PRC, is not fully in compliance with the GMP standards. Accordingly, the Group plans to set up a GMP compliant plant in the development zone of Wuhan University in Wuhan with a site area of approximately 34,844 sq.m. and gradually will shift the current production of Opin in the existing Wuhan plant to the GMP compliant plant. As at the Latest Practicable Date, the super structure of the new factory has been completed. The Directors believe the GMP certification for this new factory could be obtained by early 2004. If the Group encounters any major problems in this process, the Group's production operations and business performance may be seriously affected.

## RISK FACTORS

### **Expiry of protection period**

One of the products of the Group, Opin, was registered as a new pharmaceutical product on 2 June 1998 and was protected from competition under the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer (關於新藥保護及技術轉讓的規定) during the protection period from 2 June 1998 to 1 June 2001. In May 2000, the Group applied for a new indication for Opin as a Class 5 new drug in relation to a project which involves the use of Opin for the treatment of herpes. The clinical trial report was submitted to the SFDA in April 2002 and the approval was granted on 31 March 2003. With such approval, Opin can enjoy three years of protection for the new indication in accordance with the Notice on the Protection Period of New Medicines Approved to Produce and Clinical Trial before the Implementation of “the Implementary Ordinance of the Law of the PRC on the Administration of Drugs” (關於《中華人民共和國藥品管理法實施條例》實施前已批准生產和臨床研究的新藥品保護期的通知). No pharmaceutical manufacturing enterprises, other than the original manufacturer of the new pharmaceutical products approved by the SFDA (i.e. Wuhan Weiao), may engage in the manufacture of Opin unless it enters into a technology transfer agreement with the original manufacturer during the protection period. Upon the expiry of the protection period, other manufacturers will be entitled to produce the same product as Opin but they will have to do so under a different brand name. This may adversely affect the profitability of this product for the Group.

### **May not be able to successfully manage its expanding operations**

In the previous years, the Group has undergone significant transformation, including setting up production facilities, expanding production lines and relocating production facilities to increase production capacity. The Group intends to continue the expansion of its operation and the geographic coverage of its customer base. The Group’s ability to continue to compete effectively and to manage future expansion of its operations will require continuous improvement of the management and financial control system, reporting procedures, and training and management of its employees. If the Group fails to address such issues adequately and in a timely manner, the Group’s business operation and profitability may be adversely affected.

### **Future success will depend on its ability to keep pace with the production methodology of the biotechnology and pharmaceutical industry in the PRC**

The future success of the Group will depend on its ability to continuously develop and enhance its existing products as well as production capability for the production of drugs in a cost effective and timely manner.

If the Group is unable to respond to the continuous improvement in production methodology in manufacturing drugs in the PRC effectively, its business, financial condition and results of operations may be adversely affected.

### **Defective products or harmful effects from the consumption or use of the Group’s products and lack of product liability insurance coverage may result in material liability and loss of market share**

Under the current PRC laws, manufacturers and vendors of defective products in the PRC may incur liability for loss and injury caused by such products. Pursuant to the General Principles of the Civil Law of PRC (中華人民共和國民法總則), which took effect in 1987, a defective product which causes property damage or physical injury to any person may subject the manufacturer or vendor of such product to civil liability for such damage or injury.

## RISK FACTORS

In 1993, the PRC Civil Law was supplemented by the Product Quality Law of the PRC (中華人民共和國產品質量法), which was enacted to protect the legitimate rights and interests of the end-users and consumers and to strengthen the supervision and control of the quality of products. Under the Product Quality Law of the PRC, manufacturers which produce defective products may be subject to criminal liability and have their business licences revoked.

At present, all business entities must observe and comply with the Consumers Protection Law in providing goods and/or consumer services. Should any product liability claims made against the Group be successful, there would be an adverse impact on the operations, financial condition and reputation of the Group.

The Group has not maintained any product liability insurance and has no current plans to effect product liability insurance in the near future. The Directors believe that it is not necessary for the Group to obtain product liability insurance as the Group carries out and will continue to carry out stringent production procedures in accordance with PRC regulations to ensure the quality of its products and reduce the risk of product liability claims. The Group has complied with stringent production procedures in accordance with PRC regulations including the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法) promulgated by the Standing Committee of the National People's Congress and the Implementing Measures of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施辦法) promulgated by The Ministry of Health of the PRC (中華人民共和國衛生部) and the GMP (Revised 1998). The Directors have confirmed that the Group has not received any product liability claims since the commencement of its business. However, product liability claims may arise in respect of the use of the Group's products. Such risks exist with respect to the Group's products under clinical trials as well as those products that have received governmental approvals for commercial sale. The Group's business may be adversely affected by any successful product liability claim. Any such claim, regardless of its merits, could result in costly litigation and put a strain on the Group's administrative resources. In addition, they could damage the Group's relationship with its customers and result in negative publicity of the Group.

### **Limited insurance coverage**

The Group currently maintains general insurance coverage on plants, buildings, motor vehicles, office furniture, fixtures and equipment covering a sum of approximately HK\$30.6 million with an annual premium payable by the Group of approximately HK\$0.2 million. In general, the Group's general insurance coverage is reviewed on an annual basis. The Directors considered that the existing general insurance coverage is sufficient to replace those assets to the existing conditions. Construction in progress amounts to approximately HK\$42.7 million including costs and prepayments incidental to land, building construction and equipment installation. The Directors will arrange insurance cover on those assets in the stage of construction in progress once the construction and installations are completed which according to the plans are scheduled to be within 2003 and 2004. At present, insurance arrangement does not cover certain leasehold improvement, certain machinery, certain office furniture, fixtures and equipment amounting to a total of approximately HK\$27.2 million situated mainly in the PRC. The Group does not maintain any product liability insurance or business disruption insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability. No assurance can be given that any losses incurred or payment required to be made by the Group, which are uninsured or not fully insured, will not have a material adverse effect on the Group's financial position.

## **RISK FACTORS**

### **No assurance that new products will be successfully developed and/or approved by the relevant authority**

One of the principal factors for the Group's success is its senior management's experience in research and development in the pharmaceutical industry in the PRC. For the three years ended 31 December 2002, the research and development costs incurred by the Group were approximately HK\$216,000, HK\$807,000 and HK\$3,217,000 respectively. The Group will continue to invest in the research and development of new products.

However, there is no assurance that any research project undertaken by the Group will lead to any result or can be completed within the anticipated time frame or the costs of such project can be recovered. There is also no assurance that the findings of any research project will lead to commercial production of any products or that the newly developed products will be approved by the relevant authority.

Moreover, in the event that the Group is unable to register its new biotechnology and pharmaceutical products as required by the Administration Measures on Registry of Pharmaceutical Products (藥品註冊管理辦法), the Group will not be able to recover the costs incurred in the development of such products. In addition, when other manufacturers are able to register earlier than the Group some new pharmaceutical products which are similar to the products developed by the Group, the Group may not be able to obtain the relevant registration under the same regulation. Accordingly, the Group's profitability may be adversely affected.

### **Unsuccessful launch of new products may result in the inability to recover expenses incurred in developing new products**

If the Group is unable to attract sufficient demand for any new biotechnology or pharmaceutical products that have been successfully developed by the Group and are approved by the relevant authorities, the costs of development or the costs incurred for the completion of clinical testing or promotion of the new drugs may not be recoverable and it may affect the Group's profitability.

### **Reliance on the PRC market**

For the three years ended 31 December 2002, the Group's sales made in the PRC accounted for approximately 99.2%, 99.8% and 99.5% of the total sales of the Group respectively. The Directors expect that the PRC will continue to be the Group's major market. Changes in the monetary policy or any state policy of the PRC or any significant decline in the condition of the PRC economy may have an adverse impact on the Group's sales and hence, its profitability.

### **Failure to protect and defend its intellectual property rights may adversely affect the Group's business**

Most of the Group's products are distributed under registered trademarks in the PRC. The Group has developed two platform technologies, namely the PSD and the SDDS technologies. The Group is in the process of applying for the patent registration of the two technologies. New medicines will be subject to different probationary protection period depending on the type of new drug. During the probationary protection period, SFDA will not approve any other similar production permits or import permits. However, third parties might produce counterfeit, copy or otherwise infringe the Group's intellectual property rights without obtaining authorisation from the Group.

## **RISK FACTORS**

The Group's inability to protect its intellectual property may materially and adversely affect the Group's reputation, business, financial condition and results of operations.

### **Renewal of certificates, permits and business licences**

As a pre-requisite to carrying on pharmaceutical manufacturing business in the PRC, all pharmaceutical enterprises are required to obtain from various governmental authorities certain certificates, permits and business licences. Details of these certificates, permits and business licences are set out in the paragraph headed "Manufacturer of pharmaceutical products" under the section headed "Industry overview" of this document.

Since the commencement of its operation, the Group has successfully obtained all requisite certificates, permits and business licences for the manufacture of its pharmaceutical products. The Pharmaceutical Manufacturing Permit (藥品生產許可證) of the Group will expire on 31 December 2005. However, these certificates together with permits and business licences held by the Group are subject to periodic renewal, reassessment by the relevant government authorities and the standards of compliance required in relation thereto may from time to time be changed. In addition, it may be costly for the Group to comply with any subsequent modification of, additions or new restrictions to, these compliance standards.

It should be noted that the requirements under these permits and business licences may change from time to time, which may give rise to compliance problems. Furthermore, if it becomes too costly for the Group to comply with any subsequent modification of, additions or new restrictions mandatorily imposed by the PRC laws, rules and regulations, the Group's profitability may be affected.

### **May not be able to attract and retain key management and technical personnel whom it needs for its success**

The Directors believe that one of the key factors for the Group's success is its ability to recruit and retain key management and technical personnel. Their expertise and experience in the business is instrumental to the Group in developing and upgrading the Group's products. If the Group is unable to retain its key management and technical personnel or recruit high calibre employees, the Group's operation and profitability may be adversely affected.

### **Dividend policy**

There is no assurance that a dividend will be made in the future and the past dividend payment history should not be used as a reference or basis to determine the amount of dividend. The amount of dividend that may be declared in the future will depend on, among other things, the Company's operating results, financial positions, cash flows, operating and capital requirements. The Directors expect that interim and final dividend if any, will be paid in or around October and May each financial year respectively, and in the event that dividends will be proposed and declared in any financial year, the total dividends would represent approximately one-third of the profit after taxation and minority interests for that particular financial year. The Directors will consider from time to time to propose any scrip dividend to enable the Shareholders to elect for scrip Shares, cash or partly in scrip Shares and partly in cash.



## RISK FACTORS

### **Non-inclusion of a profit forecast for the year ending 31 December 2003**

For the three years ended 31 December 2002, the Group recorded profit attributable to Shareholders of approximately HK\$14.5 million, HK\$38.1 million and HK\$40.6 million respectively.

The Directors do not consider that there is an adequate and appropriate basis for preparing a profit forecast to the level of accuracy and reasonableness required for inclusion in this document as the Directors consider that the whole pharmaceutical industry is highly correlated to the change in regulatory and market conditions. In addition, the Group plans to launch certain new products which may result in significant fluctuation of the total turnover of the Group for the year ending 31 December 2003.

Given the above uncertainties which may constitute either positive or negative impact on the Group's business, the Directors do not consider it appropriate to prepare a profit forecast for the Group for the year ending 31 December 2003. Investors should be aware that there is no assurance that the Group will maintain its historical revenue or profitability and the historical results of the Group should not, therefore, be used as an indication of its future performance.

### **Profits generated by certain subsidiaries of the Company are either tax free or taxed at preferential rates under tax holidays granted by relevant tax authorities**

Any changes in the tax holiday policy or assessing practice of the central government or local tax authorities of the PRC may have an adverse effect on the Group's profits after taxation.

For the two financial years ended 31 December 2001, certain profits of the Group generated by Beshabar (HK) were neither arisen nor derived from Hong Kong. Beshabar (HK) was principally engaged in the import of Osteoform raw material and export of Osteoform capsules. The raw material of Osteoform was purchased from Pharmco and a marketing and distribution agreement was negotiated and concluded in the US. Beshabar (HK) also entered into a processing agreement with Bright Future for sub-contracting the en-capsulation and packing processes of Osteoform. Import shipments for raw material from Pharmco was directly sent to and received by Bright Future. Export shipments of Osteoform capsules were directly shipped ex-factory from Bright Future to the customers of Beshabar (HK) in the PRC. Beshabar (HK) has entered into agency agreements giving the independent agents full authority to negotiate and conclude sales contracts in the PRC with wholesalers on its behalf. As aforesaid, the operation cycle of Beshabar (HK) comprised purchasing of raw material, processing of raw material into finished goods and selling of goods via independent agents to the PRC end customers. As such, no Hong Kong profits tax was provided. Given the independent status of the PRC agents, according to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation of Income, Beshabar (HK) does not constitute a taxable presence in the PRC. However, if for whatever reasons, the PRC agents' activities are devoted wholly or almost wholly on behalf of Beshabar (HK) in the future, Beshabar (HK) will be subject to the PRC enterprise income tax.

The Company has obtained professional tax advice from PricewaterhouseCoopers Ltd., tax consultant, that Beshabar (HK) did not have any Hong Kong or PRC tax exposure for the period starting from 25 August 2000 (date of incorporation of Beshabar (HK)) to 31 December 2001. Based on the advice, Beshabar (HK) filed its Hong Kong profits tax return for the two financial years ended 31 December 2001 on the basis that the income derived is non-Hong Kong sourced and therefore not subject to Hong Kong profits tax. Currently, Beshabar (HK) is under assessment by the Hong Kong Inland Revenue Department for the year of assessment of 2000/01 and 2001/02.

## **RISK FACTORS**

The after tax results of the Group will be affected if, for whatever reasons, the Hong Kong Inland Revenue Department does not agree with the filing position. Such maximum effect on the after tax results of the Group is approximately HK\$6 million.

For the financial year ended 31 December 2002, certain profits of the Group generated by Beshabar (Macao) were tax free in Macao. The business operation of Beshabar (Macao) comprises importing of raw material and exporting of semi-finished goods which is based and conducted in Macao. As advised by the Macao legal advisers, Beshabar (Macao) is incorporated as an offshore commercial service company under Macao law and is exempted from income tax, industrial tax and stamp duties. Beshabar (Macao) is duly set up with authorisation from the Macao Trade and Investment Promotion Institute (“IPIM”). The first set of audited accounts from 18 March 2002 (date of incorporation of Beshabar (Macao)) to 31 December 2002 has been filed with IPIM and separate filing to tax department of Macao is not required. Any changes in the taxation policy of Macao may have an adverse effect on the profits after tax of the Group. Currently, Beshabar (Macao) does not negotiate, sign or conclude any sales contract with its PRC customers in the PRC and hence, Beshabar (Macao)’s trading profits generated from sales to the PRC customers are not subject to any PRC tax. However, if, for whatever reasons, Beshabar (Macao) negotiates, signs or concludes any sales contract in the PRC in the future, Beshabar (Macao) will be subject to the PRC enterprise income tax, value added tax and stamp tax. Also, if Beshabar (Macao) negotiates, signs or concludes any sales and/or purchase contracts in Hong Kong in the future, Beshabar (Macao) will be subject to Hong Kong profits tax.

The Controlling Shareholders have entered into a tax indemnity dated 30 January 2002 with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) and all its subsidiaries, including Beshabar (HK), to provide indemnities on a joint and several basis in respect of, among other matters, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002, being the date when the share offer under the Prospectus became unconditional. The tax indemnity does not cover the period after the listing of the Shares on GEM.

### **RISKS RELATING TO THE INDUSTRY**

#### **Slow down of the growth of the pharmaceutical industry in the PRC**

The growth of the pharmaceutical industry in the PRC may slow down for the short term due to the release of “Opinion on medical and hygiene system reform in cities and towns” (關於城鎮醫藥衛生體制改革的指導意見) by various PRC government authorities in February 2000, which contains proposals on reforming the medicare system and on separating management of the drug dispensing and medical practice. The Directors believe that the social medicare reforms contemplated in the above document may lead to a separation of the medicine dispensing and the doctoring functions and the removal of hospitals’ incentive to sell medicine. The Directors believe that these social medicare reforms may result in a change in the structure of the distribution channel for medicine, whereby hospitals will reduce their purchases for pharmaceutical products which may in turn affect the profitability of the Group.

## **RISK FACTORS**

### **Competition as a result of the PRC's admission as a member of the WTO**

The PRC signed an accord on its accession to the WTO on 12 November 2001 and became a member of the WTO on 11 December 2001. The Directors anticipate that upon PRC's entry to the WTO, competition in the pharmaceutical industry will intensify in two aspects. With lower import tariffs, the Directors anticipate that imported pharmaceutical products manufactured overseas will become more competitive in terms of pricing with domestic products. The Directors also believe that foreign pharmaceutical manufacturers with more experience are likely to set up their production facilities in the PRC and compete with domestic manufacturers directly. Accordingly, the Group may face increasing competition from foreign pharmaceutical manufacturers and other manufacturers who have obtained or shall have obtained GMP accreditation certificates. Although the Group has an established customer base in the PRC, the Group's profitability may be adversely affected by the PRC's admission to the WTO.

### **Change in price control policy in the PRC may adversely affect the Group's profitability**

The prices of certain pharmaceutical products in the PRC are subject to the control by the price administration authorities at the national or provincial level. The prices of Opin and Osteoform are currently subject to such price control. As a matter of practice, there is a price ceiling set on the retail price of the subject pharmaceutical products. Details of the price control regime are set out in the paragraph headed "Price control" under the section headed "Industry overview" of this document. In the event that the manufacturing costs of the Group's products increase and that application for upward adjustment of price ceilings of the relevant products is not approved, the profitability of the Group may be adversely affected.

### **Successful launch of substitutes to the Group's products may adversely affect the Group's profitability**

Proprietary pharmaceutical products are usually protected by patents for a long period of time during which no manufacturers other than the patent holders or their licensees may produce products using the patented pharmaceutical formulae. At present, one of the Group's products, Opin, uses PSD technology of the Group. However, it is possible that products having medicinal applications or therapeutic effects comparable to the Group's products may be invented and posed as direct substitutes. If such substitutes are successfully launched in the market, the Group's profitability may be adversely affected.

### **Change in advertisements control policy may adversely affect the profits and operation of the Group**

Under the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法) promulgated on 28 February 2001 and the Regulations on Packaging, Labelling and Instruction Manuals of Drugs (藥品包裝、標籤及說明書管理規定), the advertisements, packaging and the content of the label and instructions booklet of drugs are subject to control by the SFDA. In practice, the advertisements, packaging and the contents of the label and instructions booklet of drugs are subject to the prior approval of the SFDA. Any subsequent amendments on the advertisements, packaging, the contents of the label and instructions booklet of the drugs are also subject to approval. The SFDA may require the manufacturers to take remedial measures, including ordering the manufacturers to take back all the drugs and to re-package them and/or punishing the manufacturers according to relevant regulations should the manufacturers breach such law and regulations.

## **RISK FACTORS**

Currently, the laws and regulations cited above are applicable to all the products of the Group. The SFDA may promulgate new laws and regulations which may require the Group to amend the advertisements, packaging or content of the label and instructions booklet of the Group's products which may impose additional costs on the Group and may adversely affect the Group's profitability. In addition, should the advertisements, packaging and contents of label and instructions booklet of the Group's products fail to meet the applicable requirements of the SFDA from time to time, the Group may be required to take remedial measures which may, in turn, have an adverse effect on the operations of the Group.

### **RISKS RELATING TO THE PRC**

#### **Currency conversion and exchange control**

With effect from 1 January 1994, the PRC government adopted an unified floating exchange rate system under which the exchange rate is determined basically by market demand and supply. The Group relied on RMB denominated revenue during the Track Record Period. However, the Company's accounts are denominated in Hong Kong dollars. Accordingly, if there are substantial fluctuations in the exchange rate of RMB against the Hong Kong dollars, the profitability of the Group, the value of its assets and its ability to pay dividends in Hong Kong dollars may be adversely affected.

Moreover, the conversion of RMB into foreign currencies, including Hong Kong dollars, continues to be subject to exchange control. Under the PRC's Foreign Exchange Control Regulations and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, foreign investment enterprises are permitted to repatriate or distribute its profits or dividends in foreign currencies out of its foreign exchange accounts or exchange RMB for foreign currencies through banks authorized to conduct foreign exchange business. Conversion of RMB into foreign exchange by foreign investment enterprises for the use of recurring items, including the distribution of dividends to foreign investors, is permissible. Conversion of RMB into foreign currencies for capital items, including items such as direct investment, loans and security investment, is subject to more stringent control. The Group is subject to the above regulations. There is no assurance that any change in the new law or regulation prohibits or further restricts the convertibility of RMB into foreign currency or any shortages in the availability of foreign currency in the PRC will not restrict the Company's ability to obtain sufficient foreign currency to pay dividends on the Shares as the Group will receive most of its revenue in RMB.

#### **Political, economic and social considerations**

One of the basic assumptions for the Group's future plans and business objectives is that there will be no material adverse changes in the existing political, economic, environmental protection or social conditions in the PRC. In the event that general economic, political, legal and social conditions in the PRC change substantially, the operations and prospects of the Group may be adversely affected.

The PRC economy is essentially a planned economy operated under annual, five and ten years' plans. The PRC government has introduced substantial economic reforms in recent years. However, many laws and regulations on economic reforms are at an early stage of development and their interpretation and enforcement involve uncertainties. As the PRC is the major market of the Group, there is no assurance that changes in the PRC laws and regulations or their interpretation will not have any adverse effect upon the business and the prospects of the Group. In addition, any

## RISK FACTORS

changes in the economic, political, environmental protection or social conditions prevailing in the PRC may lead to changes in the PRC government policies which may adversely affect the business and prospects of the Group.

### **Legal consideration**

Since 1979, many laws and regulations dealing with economic matters with respect to general and foreign investment have been promulgated in the PRC. In 1982, the PRC National People's Congress amended the constitution to govern foreign investments and to guarantee the "lawful rights and interests" of foreign investors in the PRC. Since then, it has been the trend of legislation to provide more protection to foreign investors and to allow more active management and control by foreign investors in foreign investment enterprises in the PRC. Despite these developments, the Directors believe that the PRC does not have a comprehensive system of laws. The implementation of existing laws may also be uncertain and sporadic and their interpretation may be inconsistent. As the PRC legal system matures, there may be changes in its legislation or the related interpretation that may, in turn, adversely affect the business and prospects of the Group.

### **Environmental protection**

The Group is required to comply with the environment protection laws and regulations promulgated by the national and local governments of the PRC. These laws and regulations cover issues such as the level of fees payable to government entities providing environmental services and the prescribed standards relating to the discharge of solid wastes, effluent and gases. These regulations also empower local governments to impose penalties on companies who do not comply with the relevant requirements. Due to the business nature of the Group, solid wastes, effluent, gases and noise are produced during the production processes. The Group has established and implemented a set of environmental protection measures in relation to the disposal of solid wastes, effluent and gases and the reduction of noise which comply with the regulations. The Group has been issued with relevant permits by the local Environmental Protection Bureau allowing the Group to dispose of wastes within the standards set out in the permit. The Group's current Waste Disposal Permit (排放污染物許可証) was issued on 11 March 2003 and is valid until March 2006. The Group has to submit an application to the Environmental Protection Bureau three months before the expiration of the permit. Such permit will only be renewed upon review by the Environmental Protection Bureau in accordance with the then applicable regulations. The Directors do not foresee any difficulties in the renewal of such permit. The Group has not received any notice or warning letter from the said Bureau alleging any breach of any environmental laws and regulations. However, no assurance can be given that the PRC government will not introduce new laws and regulations which may impose stricter control on environmental protection. As such, the Group may need to incur additional costs in order to comply with these new regulations, which may adversely affect the Group's profitability.

## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT**

This document includes particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Subsidiary Legislation V of Chapter 571 of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document 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 in this document misleading.

**This document is published solely in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to offer, of the Shares or other securities of the Company.**

### **APPLICATION FOR LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of options, which were granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme, on the Main Board. Except that prior to the Introduction, the Shares are listed on GEM, no part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought as at the date of this document. The Shares will continue to be traded in board lot of 5,000 Shares each.

### **SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS**

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 7 February 2002, the date on which the Shares were listed on GEM. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continuing compliance with the stock admission requirements of HKSCC by the Company, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Necessary arrangements have been made with HKSCC for the Shares in issue and any Shares which may fall to be allotted and issued upon the exercise of the options, which were granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme, to continue to be accepted as eligible securities of CCASS.

## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

### **NO CHANGE IN BUSINESS**

No change in the business of the Group is contemplated following the Introduction.

### **STAMP DUTY**

Dealings in the Shares registered on the register of members kept by the Company's Hong Kong branch share registrar will be subject to Hong Kong stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

*Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, CPY, any of their respective directors, agents or advisers or any other party involved in the Introduction accepts responsibility for any tax effects on, or liability of, any person resulting from the holding or dealing in the Shares.*

### **UNDERTAKINGS**

Each of Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung and Perfect Develop has undertaken to the Company, the Sponsor and the Stock Exchange that he/it shall not (a) in the period of six months from the Listing Date, dispose of, and shall procure that the registered holder thereof shall not dispose of, any of those Shares in respect of which he/it is the beneficial owner; and (b) in the period of six months commencing from the date on which period referred to in paragraph (a) above expires, dispose of or permit the registered holder thereof to dispose of, any of the Shares referred in paragraph (a) above, if immediately following such disposal, Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung and Perfect Develop would cease to be the controlling shareholders of the Company (as defined in the Listing Rules).

Each of Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung and Perfect Develop has further undertaken to the Stock Exchange, the Company and the Sponsor that, within the twelve months from the Listing Date, he/it will:

- (i) immediately inform the Company of any pledges or charges of securities of the Company beneficially owned by him/it together with the number of securities so pledged or charged; and
- (ii) immediately inform the Company when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge or charge mentioned above by any of Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung or Perfect Develop, and disclose such matters by way of a press notice in newspapers as soon as possible in accordance with the requirements under the Listing Rules.

## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

### **CONDITIONS OF THE INTRODUCTION**

The Introduction is subject to the fulfillment of the conditions that, among other things, the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be allotted and issued pursuant to the exercise of options which were granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme, on the Main Board.

The Shares are currently listed on GEM. Immediately prior to the Introduction, the listing of the Shares on GEM will be withdrawn in accordance with the GEM Listing Rules. In this connection, the Extraordinary General Meeting will be held to approve, among other things, the proposed withdrawal of listing of the Shares on GEM. The Directors expect that dealings in the Shares on the Main Board will commence on or about 4 August 2003. Shares will continue to be traded in board lots of 5,000 Shares each.

### **CONTINUING OBLIGATIONS**

The continuing obligations of listed issuers under the Listing Rules and the GEM Listing Rules are not the same. For example, the principal means of information dissemination by listed issuers on GEM is via publication on the internet website operated by the Stock Exchange whereas the principal means of information dissemination for listed issuers on Main Board is through newspapers. In addition, listed issuers on Main Board are not required to publish quarterly reports. Upon the listing of the Shares on the Main Board, the Company will comply with all the disclosure requirements of the Listing Rules and will make all disclosures as required under the Listing Rules. Although the Listing Rules presently do not require the publication of quarterly reports, the Company intends to continue to publish quarterly reports on a voluntary basis.



## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

### DIRECTORS

Name	Address	Nationality
<b>Executive Directors</b>		
Ko Sai Ying, Thomas	29 Cumberland Road Kowloon Tong Kowloon Hong Kong	Australian
Au Yeung Ping Yuen, Terence	11th Floor, Block B Century Court 239 Jaffe Road Wanchai Hong Kong	Australian
Liu Jin, James	8P3/22 Ross Street Wollstonecraft NSW 2065 Australia	Australian
Tao Lung	Flat G, 6th Floor Block 5, Chelsea Heights Shek Pai Tau Road Tuen Mun New Territories Hong Kong	Chinese
<b>Independent non-executive Directors</b>		
Lui Tin Nang	Flat G, 17th Floor Tower 6 Island Harbour View Hong Kong	Chinese
Lee Kwong Yiu	Flat D, 8th Floor Tower 27 Parc Oasis 35 Grandeur Road Kowloon Tong Kowloon Hong Kong	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

### PARTIES INVOLVED IN THE INTRODUCTION

<b>Sponsor</b>	Core Pacific – Yamaichi Capital Limited 36th Floor Cosco Tower Grand Millennium Plaza 183 Queen’s Road Central Hong Kong
<b>Financial adviser to the Company</b>	Crosby Limited 2701 Citibank Tower 3 Garden Road, Central Hong Kong
<b>Legal advisers to the Company</b>	<i>As to Hong Kong law</i> Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Central Hong Kong  <i>As to PRC law</i> Shu Jin & Co., Solicitors & Attorneys 21st Floor, Dongfeng Building Shennan Road Central, Shenzhen the PRC  <i>As to Cayman Islands law</i> Conyers Dill & Pearman, Cayman Century Yard Cricket Square Hutchins Drive George Town Grand Cayman Cayman Islands British West Indies  <i>As to Australian law</i> Nevett Ford Level 42, 525 Collins Street Melbourne, Victoria 3000 Australia  <i>As to Macao law</i> Artur dos Santos Robarts Avenida Almeida Ribeiro Nº346, 2º andar Macao

## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

**Legal advisers to the Sponsor**

Preston Gates & Ellis  
10th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

**Auditors and reporting accountants**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor, Prince's Building  
Central  
Hong Kong

**Property valuer**

BMI Appraisals Limited  
Suite 05-06, 14th Floor  
Harbour Centre  
25 Harbour Road  
Wanchai  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office:</b>	Century Yard Cricket Square Hutchins Drive George Town Grand Cayman Cayman Islands British West Indies
<b>Head office and principal place of business:</b>	18th Floor, CRE Building 303 Hennessy Road Wanchai Hong Kong
<b>Company website:</b>	<a href="http://www.vitalbiotech.com">http://www.vitalbiotech.com</a>
<b>Company secretary:</b>	Mr. Lam Kai Cheung <i>ACCA, AHKSA</i> Tower 1, 10E Ma On Shan Centre Ma On Shan New Territories Hong Kong
<b>Audit committee:</b>	Mr. Lui Tin Nang Mr. Lee Kwong Yiu
<b>Authorised representatives:</b>	Mr. Tao Lung Mr. Ko Sai Ying, Thomas
<b>Principal share registrar and transfer office:</b>	Bank of Bermuda (Cayman) Limited 36C Bermuda House 3rd Floor P.O.Box 513 G.T. Dr. Roy's Drive George Town Grand Cayman Cayman Islands British West Indies
<b>Hong Kong branch share registrar and transfer office:</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong

## CORPORATE INFORMATION

**Principal bankers:**

The Hong Kong and Shanghai Banking  
Corporation Limited

Main Branch

1 Queen's Road Central

Hong Kong

and

Mongkok Branch

2nd Floor, 637 Nathan Road

Mongkok, Kowloon

Hong Kong

The Agricultural Bank of China

Wuhan Wuchang Sub-branch

247 Zi Yang Road

Wuhan, Hubei

the PRC

The Industrial and Commercial Bank of China

Chengdu Branch, Caoshi Sub-branch

64 Caoshi Street, Chengdu

the PRC

## INDUSTRY OVERVIEW

*The information in this section is derived from various private and/or government publications. Such information has not been prepared or independently verified by the Directors, the Company, the Sponsor or any of their respective advisers or affiliates in connection with the Introduction.*

### BIOTECHNOLOGY AND PHARMACEUTICAL SCIENCE

Biotechnology is the technique that uses biological processes and other technology to extract or reconstruct living organism (including animals, plant and micro-organism) or its components, cells and tissues for specific uses. Biotechnology comprises genetic engineering (including protein engineering), fermentation engineering and enzyme engineering. Biotechnology has wide medical and industrial applications which help human beings ease problems such as disease, food production and environmental pollution. Through the production of biological molecules, biotechnology can ease the reliance on substances of blood origin, thus alleviating shortage problems of such substances.

#### **The development and application of biotechnology in pharmaceutical science**

The application of biotechnology in pharmaceutical science has brought a series of breakthroughs in the development of new drugs. The Directors believe that the development and application of biotechnology have contributed and will continue to contribute to the discovery and development of new pharmaceutical products. The advantages of applying biotechnology in the research and development of pharmaceutical products are as follows:

- biotechnology can create substances that cannot be found in nature and can avoid the use of blood born products; and
- biotechnology may be able to increase the quantity of some biological products at substantially lower production costs.

In 1982, human insulin, the world's first genetic engineering pharmaceutical product, was released to the market.

The recent availability of information from the Human Genome Program also helped in speeding up the progress of development in the biotechnology industry.

### PHARMACEUTICAL INDUSTRY IN THE PRC

In accordance with the data published by SFDA South Medicinal Economic Institution (國家食品藥品監督管理局南方醫藥經濟研究所) in 2003, the total production value of the PRC pharmaceutical industry increased to approximately RMB330 billion in 2002. The total production value of the PRC pharmaceutical industry grew by approximately 18.8% compared with that of 2001. In addition, the PRC has the largest population in the world and 60.9% of the population is living in villages. It is therefore expected that the demand for pharmaceutical products will increase in the forthcoming years.

## INDUSTRY OVERVIEW

### The supervisory authority

In the PRC, the SFDA is the authority which monitors and supervises the administration of food, health food and cosmetics as well as the pharmaceutical industry including pharmaceutical products and medical appliances and equipment. The SFDA's predecessor State Drug Administration ("SDA") was established on 19 August 1998 as an organisation under the State Council to assume the responsibilities of the Ministry of Public Health of the PRC (中華人民共和國衛生部) ("MPH"), the State Pharmaceutical Administration Bureau of the PRC (中華人民共和國藥品管理局) and the State of Administration of Traditional Chinese Medicine of the PRC (中華人民共和國中醫藥管理局). According to the Decision on Reform of the State Council's Organization (關於國務院機構改革方案決議案) promulgated by the National People's Congress on 10 March 2003, SFDA was founded on the basis of SDA.

The primary responsibilities of the SFDA are:

- (a) monitoring and supervising the administration of pharmaceutical products and medical appliances and equipment as well as food, health food and cosmetics in the PRC;
- (b) formulating administrative rules and policies concerning the supervision and administration of food, health food, cosmetics and the pharmaceutical industry;
- (c) evaluating, registering and approving of new drugs, generic drugs, imported drugs and Chinese medicines;
- (d) approving and permitting the manufacture and export/import of pharmaceutical products and medical appliances and equipment and the establishment of enterprises engaging in the manufacture and distribution of pharmaceutical products; and
- (e) examining and evaluating safety of food, health food and cosmetics, handling significant accidents of these products.

### The laws and regulations

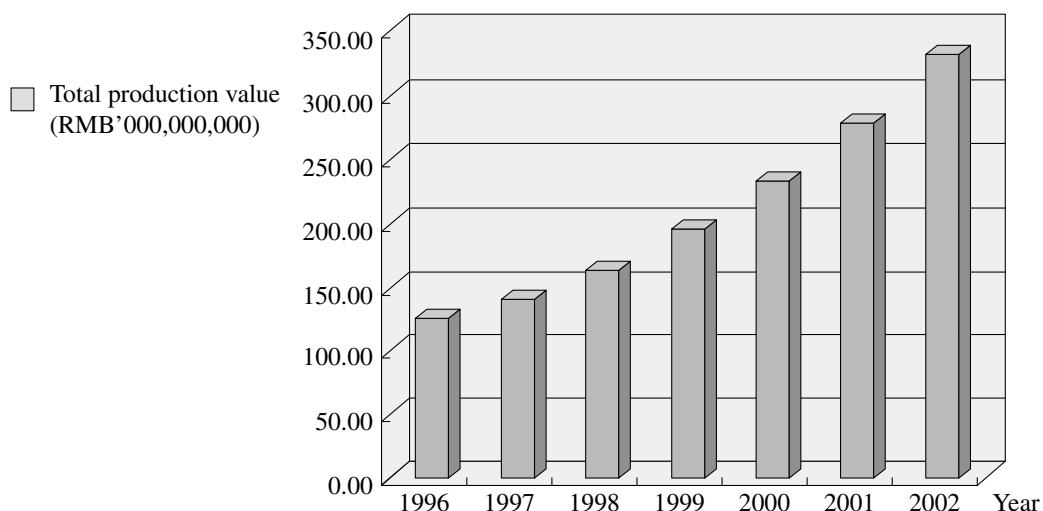
The Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) was promulgated on 20 September 1984 and amended on 28 February 2001 by the People's National Congress of the PRC. This amendment came into effect on 31 December 2001. Implementary Ordinance of the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施條例) was promulgated on 4 August 2002. On 4 August 2002, the State Council announced the Implementary Ordinance of the Law of the PRC on the Administrative of Drugs (藥品管理法實施條例) which became effective on 15 September 2002 to replace the old the Implementary Measures of the Law of the PRC on the Administration of Drugs (藥品管理法實施辦法). In October 2002, SFDA announced the Administrative Measures on Registry of Pharmaceutical Products (藥品註冊管理辦法) which came into effect on the 1 December 2002. New medicines are re-defined as those that have not been previously "sold" in the PRC. The Administrative Measures on Registry of Pharmaceutical Products (藥品註冊管理辦法), replaced the Regulations on Examination and Approval of New Medicines (新藥審批辦法), the Regulations on Examination and Approval of New Biopharmaceutical Products (新生物制品審批辦法), the Regulations on the Protection of New Medicines and Technology Transfer (新藥保護和技術轉讓的規定), the Regulations on Examination and Approval of Imitating Drugs (仿製藥品審批辦法)

## INDUSTRY OVERVIEW

and the Administrative Regulation of Imported Medicine (進口藥品管理辦法) which were promulgated on 22 April 1999. These set out the legal framework with respect to the manufacture, sale, purchase and distribution of pharmaceutical products in the PRC.

### Total production value of pharmaceutical market

In 2000, the total production value of pharmaceutical market in the PRC amounted to approximately RMB233 billion. In 2001, the total production value of pharmaceutical market in the PRC amounted to approximately RMB278 billion. In 2002, the total production value of pharmaceutical market in the PRC amounted to approximately RMB330 billion, representing an increase of approximately 41.5% from the year of 2000 and 18.8% increase from the year of 2001.



Source: SFDA South Medicinal Economic Institution (國家食品藥品監督管理局南方醫藥經濟研究所), 2003

### Manufacturer of pharmaceutical products

A pharmaceutical manufacturing enterprise in the PRC must obtain the following certificates, permits and licences from the relevant pharmaceutical supervisory bodies before it can manufacture pharmaceutical products:

#### Production permits:

- On or before June 1999, Pharmaceutical Manufacturing Enterprise Qualification Certificate (藥品生產企業合格證) and Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) issued by the relevant pharmaceutical administrative authorities and the relevant public health department respectively at the provincial level where the enterprise is located were required for pharmaceutical manufacturing enterprises;
- During the period from around July 1999 to June 2000, pharmaceutical manufacturing enterprises were required to obtain a renewed Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證), which replaced the previous qualification certificate and permit; and



## INDUSTRY OVERVIEW

- From July 2000 onwards, the new Pharmaceutical Manufacturing Permit (藥品生產許可證) issued by the relevant pharmaceutical administrative authorities and the relevant public health department at the provincial level where the enterprise is located is required for pharmaceutical manufacturing enterprises. Replacement of the existing old permit with this new Pharmaceutical Manufacturing Permit (藥品生產許可證) were co-ordinated and implemented by SFDA in the period of 1 January 2003 to 31 March 2003.

### **Business licences:**

A business licence will be issued by the relevant administrative bureau of industry and commerce to a pharmaceutical manufacturing enterprise on application soon after it has obtained the requisite permits referred to above from the relevant authorities.

Each permit issued to any pharmaceutical manufacturing enterprise is effective for a period of five years. Any pharmaceutical manufacturing enterprise is required to apply for renewal of such permit within six months prior to its expiry and will be subject to re-assessment by the issuing authorities in accordance with the then prevailing legal and regulatory requirements for the purposes of such renewal. In addition, any pharmaceutical manufacturing enterprise which have obtained a permit are subject to review by the relevant regulatory authorities on an annual basis.

The Group has obtained all permits and licences from the relevant pharmaceutical regulatory authorities in the PRC with respect to the manufacture of all its products.

### **Registration of pharmaceutical products**

All pharmaceutical products which are produced in the PRC must bear a registered number approved by the appropriate drug administration authorities in the PRC, with the exception of Chinese herbs and Chinese medicines in soluble tablet form.

### **GMP**

The World Health Organisation encourages the adoption of GMP standards in pharmaceutical production in order to minimise the risks involved in any pharmaceutical production that cannot be eliminated through testing the final products.

In 1988, the Ministry of Health, the PRC National Health Department (中國國家衛生部) started to issue the GMP standards for the pharmaceutical manufacturing enterprises in the PRC. However, during the implementation of the GMP standards, it was discovered that some of the GMP standards had to be revised to suit the situation in the PRC.

In 1999, the SFDA passed the Guidelines on Good Manufacturing Practices (1998 revised) (藥品生產質量管理規範(1998年修訂)) (the “Guidelines”) which sets the basic guidelines on the manufacture of pharmaceuticals. Such guidelines cover issues such as the production facilities, the qualification of staff of management level, production plant and facilities, documentation, material packaging and labeling, inspection, production management, sales and return of products and complaints from customers. The Guidelines came into effect on 1 August 1999. Deadlines were laid down for the satisfaction of the standards. The SFDA further issued the Notice on the Overall Acceleration of the Implementation and Supervision of Good Manufacturing Practice for

## INDUSTRY OVERVIEW

Pharmaceuticals (關於全面加快監督實施藥品GMP工作進程的通知), which requires all the pharmaceutical manufacturing enterprises to comply with the GMP standards by 30 June 2004. The GMP certificate is valid for a term of five years and application for renewal has to be submitted three months prior to its expiry date. If the pharmaceutical manufacturers fail to obtain a GMP compliance certificate within the specified deadline, their Pharmaceutical Manufacturing Permits (藥品生產許可證) will not be renewed.

### New Medicines

Prior to December 2002, new medicines were generally referring to those medicines which were not “produced” in the PRC, and include modifying the dosage form, change of delivery system, new indication or new formulation of existing drugs. The development of new medicines was governed by the Regulations on the Examination and Approval of New Medicines (新藥審批辦法) promulgated by the SFDA in 1999.

Prior to 1999, under the “Procedure For the Approval of New Biological Product” effective from 1 July 1985, new biological drugs were classified into 4 classes according to the criteria listed below and protected by the listed administration protection period respectively.

<b>Class name</b>	<b>Classification Criteria</b>	<b>Protection Period</b>
Class 1	attenuated live bacterial cultures, attenuated live vaccines	8 years including trial production period of 2 years
Class 2	dead bacterial cultures, dead vaccines, toxoids, anti-toxins, anti-sera, specific immunoglobulins, bacteriophages	6 years including trial production period of 2 years
Class 3	blood born products and immunology products processed from human or animal blood or tissues	4 years
Class 4	diagnostic materials for in vitro serology or immunology testing	3 years

In 1999, the SFDA promulgated the Regulations on the Examination and Approval of New Medicines (新藥審批辦法). Under the new regulation in 1999, before a new medicine can be manufactured on a commercial basis, a manufacturer is required to obtain approval from the SFDA at the appropriate provincial level.

Application for a new medicine principally involves several approval procedures at various levels of the SFDA. Based on the knowledge and experience of the Directors, the time required for the whole application process of a new medicine varies depending upon the category of the new drug under application and the Directors estimate that the process usually takes approximately 1 to 5 years.

Application for a new medicine should be submitted to the provincial pharmaceutical supervisory authority. Further, information on and samples of the new medicine for clinical testing and commercial production should also be submitted together with a completed application form to the provincial and state levels of the SFDA. Clinical testing of the new medicine, as part of the

## INDUSTRY OVERVIEW

application process, is required to be carried out at designated hospitals. Normally, a certificate of new medicine and a new approval number for the new medicine will be issued by the state level of the SFDA upon completion of the third stage of clinical testing. Upon obtaining the certificate of new medicine from the SFDA, a pharmaceutical manufacturer, having obtained a valid Pharmaceutical Manufacturing Permit (藥品生產許可證), can, in compliance with the GMP standards, apply to the relevant authorities for an approval document regarding the production of the new medicine. After obtaining the approval document, the pharmaceutical manufacturer can commence production of the new medicine on a commercial basis.

The new medicine will be protected if it is a registered patent. According to the Law of the PRC on Patent (中華人民共和國專利法), only the original inventor of an invention and/or the legal transferee of the invention are eligible to apply for patent rights. Such invention must be completely new and must not be known to the public before and at the date of the relevant patent application.

New medicines are divided into three main categories, namely, Chinese medicines, chemical medicines and biopharmaceutical products. Prior to December 2002, the approval of new biopharmaceutical products was governed by the Measures on the Examination and Approval of New Biopharmaceutical Products (新生物制品審批辦法) promulgated by the SFDA which came into effect on 1 May 1999. Under these measures, new biopharmaceutical products were divided into five categories:

- Class 1: biopharmaceutical products which have not been previously approved for sale in the PRC and overseas
- Class 2: biopharmaceutical products which have been approved for sale overseas but have not been included in the PRC pharmacopoeia and not yet imported into the PRC
- Class 3: new prescription medicine with biopharmaceutical products as its main component  
  
biopharmaceutical products which the technical processes have been significantly transformed
- Class 4: biopharmaceutical products which has been included in pharmacopoeia outside the PRC  
  
biopharmaceutical products which has been approved for import into the PRC  
  
biopharmaceutical products with new prescription and new method of application
- Class 5: biopharmaceutical products with added applications

## INDUSTRY OVERVIEW

Under the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer (新藥保護和技術轉讓的規定) promulgated by the SFDA which came into effect on 1 May 1999, the PRC government has introduced a classified product protection system for new medicines. The protection period (starting from the date of issue of the SFDA new medicine certificate and where trial production period applies to a new drug, including the trial production period) varies with new medicines of different categories:

<b>Class</b>	<b>Protection period (years)</b>
1	12
2	8
3	8
4	6
5	6

During the protection period, an entity which is not the holder of the original certificate of new medicine granted by the SFDA may not engage in the manufacture or simulation of such a product without entering into any technology transfer agreement with such holder. A transferee must have first obtained the pharmaceutical manufacturing enterprise permit and the pharmaceutical GMP certificate. In the event that no production is undertaken for or no transfer is effected within two years from the date of the grant of the new medicine certificate without special reasons, the protection offered to that new product is liable to be revoked.

Before a new biopharmaceutical product can be manufactured on a commercial basis in the PRC, it has to obtain an approval number from the SFDA. After completion of the clinical research and pre-clinical trials, an application, accompanied by the reports of such clinical research and preclinical trials, has to be made to the SFDA at the provincial level for approval for clinical trial. The provincial SFDA will, after evaluation, submit the application to the SFDA at the State level for approval.

Save and except for the diagnostic reagents in vitro, a new biological medicine may undergo clinical tests only after the SFDA approval has been obtained. After the third stage of the clinical tests has been completed, an application for approval of the new biological medicine can be submitted to the SFDA. A new medicine certificate will be issued upon obtaining the SFDA approval. If the products passed three consecutive trial productions during the sampling inspection by the PRC biopharmaceutical testing laboratory, an application for an approved number can be submitted to the SFDA.

On 4 August 2002, the State Council announced that the Implementary Ordinance of the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施條例) shall take effect on 15 September 2002 to replace the old the Implementary Measures of the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施辦法). In October 2002, SFDA announced the (藥品註冊管理辦法), which came into effect on the 1 December 2002. New medicines are re-defined as those that have not been “sold” in the PRC. This new Administrative Measures on Registry of Pharmaceutical Products (藥品註冊管理辦法), replaced all the Regulations on Examination and Approval of New Medicine (新藥審批辦法), the Regulations on Examination and Approval of New Biopharmaceutical Products (新生物製品審批辦法), the Regulations on the Protection of New Medicines and Technology Transfer (新藥保護和技術轉讓的規定), the Regulations on Examination and Approval of Imitating Drugs (仿製藥品審批辦法), and the Administrative Regulations of Imported Medicine (進口藥品管理辦法) which were promulgated

## INDUSTRY OVERVIEW

on 22 April 1999. With this new arrangement, the statutory protection period system will be replaced by a statutory probationary protection period system.

Under this new arrangement, those which have been approved before 15 September 2002 when the Implementary Ordinance of the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施條例) became effective, their statutory protection privileges granted under the 1999 Regulations on Examination and Approval of New Medicines (新藥審批辦法), will not change. Those applications with their clinical trial having been approved but pending the approval of production permit, a probationary protection period of three to five years will be granted upon successful completion of the process.

According to SFDA the Notice on the Protection Period of New Medicines Approved to Produce and Clinical Trial before the Implementation of “the Implementary Ordinance of the Law of the PRC on the Administration of Drugs” (關於〈中華人民共和國藥品管理法實施條例〉實施前已批准生產和臨床研究的新藥的保護期的通知), the arrangement for applications which are under various stage of processing during and after the transition period of the new Implementary Ordinance of the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施條例) is as follow:

1. Those which have been approved before 15 September 2002, their statutory protection privileges granted under the 1999 Regulations on Examination and Approval of New Medicines (新藥審批辦法) will not be changed.
2. Those applications with their clinical trials having been approved but pending the approval of production permit, a probationary protection period of 3-5 years will be granted upon successful completion of the process. For those applications which are Class 1 new drugs under the old 1999 Regulations on Examination and Approval of New Medicines (新藥審批辦法), a 5 year probationary protection period will apply. For those applications which are Class 2 new drugs under the old 1999 Regulations on Examination and Approval of New Medicines (新藥審批辦法), a 4 year probationary protection period will apply. For those applications which are Class 3-5 new drugs under the old 1999 Regulations on Examination and Approval of New Medicines (新藥審批辦法), a 3 year probationary protection period will apply. During the probationary protection period, other pharmaceutical manufacturers will be prohibited from manufacturing the same drugs.
3. For those new drug applications which SFDA has accepted their applications before 15 September 2002 but has not approved their clinical trial and those applications lodged after 15 September 2002, such applications will be processed according to the new Administrative Measures on Registry of Pharmaceutical Products (藥品註冊管理辦法) and the Implementary Ordinance of the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法實施條例). New medicines are re-defined as those that have not been previously “sold” in the PRC. Those medicines which have been granted a production permit, a statutory probationary protection of not more than 5 years will apply. The probationary protection period will commence on the day when the production permit is approved. Depending on the type of new drug and according to the safety and research data available both domestically and internationally, SFDA will determine the exact length of the probationary protection period in order to protect the safety of the public. Within the probationary protection period, SFDA will not approve any other similar production permits or import permits.

## INDUSTRY OVERVIEW

New medicine can also be protected by patent laws. According to the Law of the PRC on Patent (中華人民共和國專利法), only the original inventor of an invention and/or the legal transferee of the invention are eligible to apply for patent rights. Such invention must be completely new and must not be known to the public before and at the date of relevant patent application.

### Import and export

The PRC has a registration system for importing medicines into the PRC. The SFDA is responsible for the control of imported medicine in their respective administrative areas. A Certificate of Registration of Imported Medicine (進口藥物註冊證) must be obtained before any foreign pharmaceutical manufacturers or agents can import (i) any bio-pharmaceutical products; (ii) medicines which are to be sold in the PRC for the first time; and (iii) any other medicines as specified by the State Council for sale in the PRC market, into the PRC .

With respect to export, according to the Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法), certain restrictions are imposed on pharmaceutical products. For example, medicines in scarcity are prohibited from being exported. Generally, there is no restriction on the export of Chinese medicine by the state and export licences relating to Chinese medicine do not have any conditions attached to them. Export of Chinese medicine is also subject to the laws of the country or region to which the Chinese medicine is to be exported.

### Distribution of pharmaceutical products

According to the Laws of the PRC on the Administration of Drugs (中華人民共和國藥品管理法) and the Implementing Regulations of the Laws of the PRC on the Administration of Drugs (關於貫徹(中華人民共和國藥品管理法)的有關暫行規定) and Regulation on the Administration of Distribution of Pharmaceutical Products (藥品流通監督管理辦法), a manufacturer of pharmaceutical products in the PRC can only engage in the trading of the pharmaceutical products which are produced by itself. In addition, such manufacturer of pharmaceutical products can only sell its products to the following:

1. wholesalers and distributors holding Pharmaceutical Trading Permit (藥品經營許可證);
2. other manufacturers of pharmaceutical products holding Pharmaceutical Manufacturing Permit (藥品生產許可證); and
3. medical practitioners holding Medical Practice Permit (醫療機構執業許可證).

A pharmaceutical manufacturer in the PRC is prohibited from selling its products to end-users and other persons or institutions which have not obtained the Pharmaceutical Trading Permit (藥品經營許可證), the Pharmaceutical Manufacturing Qualification Certificate (藥品生產合格證) or the Medical Practice Permit (醫療機構執業許可證).

### Price control

Pharmaceutical products which are included in the price control list published by the state and provincial price administration authorities from time to time will be subject to price control with respect to their retail prices. Under the current regulatory regime, there is no statutory restriction on the wholesale price and ex-factory price of pharmaceutical products.

## **INDUSTRY OVERVIEW**

The retail price of Opin is subject to the price control policy of the PRC government pursuant to an approval issued by the Hubei Price Bureau in August 2000 and a notice issued by the State Planning Commission in July 1999. The retail price of Osteoform is also subject to price control promulgated by State Planning Commission and reaffirmed by Sichuan Price Bureau in 2002.

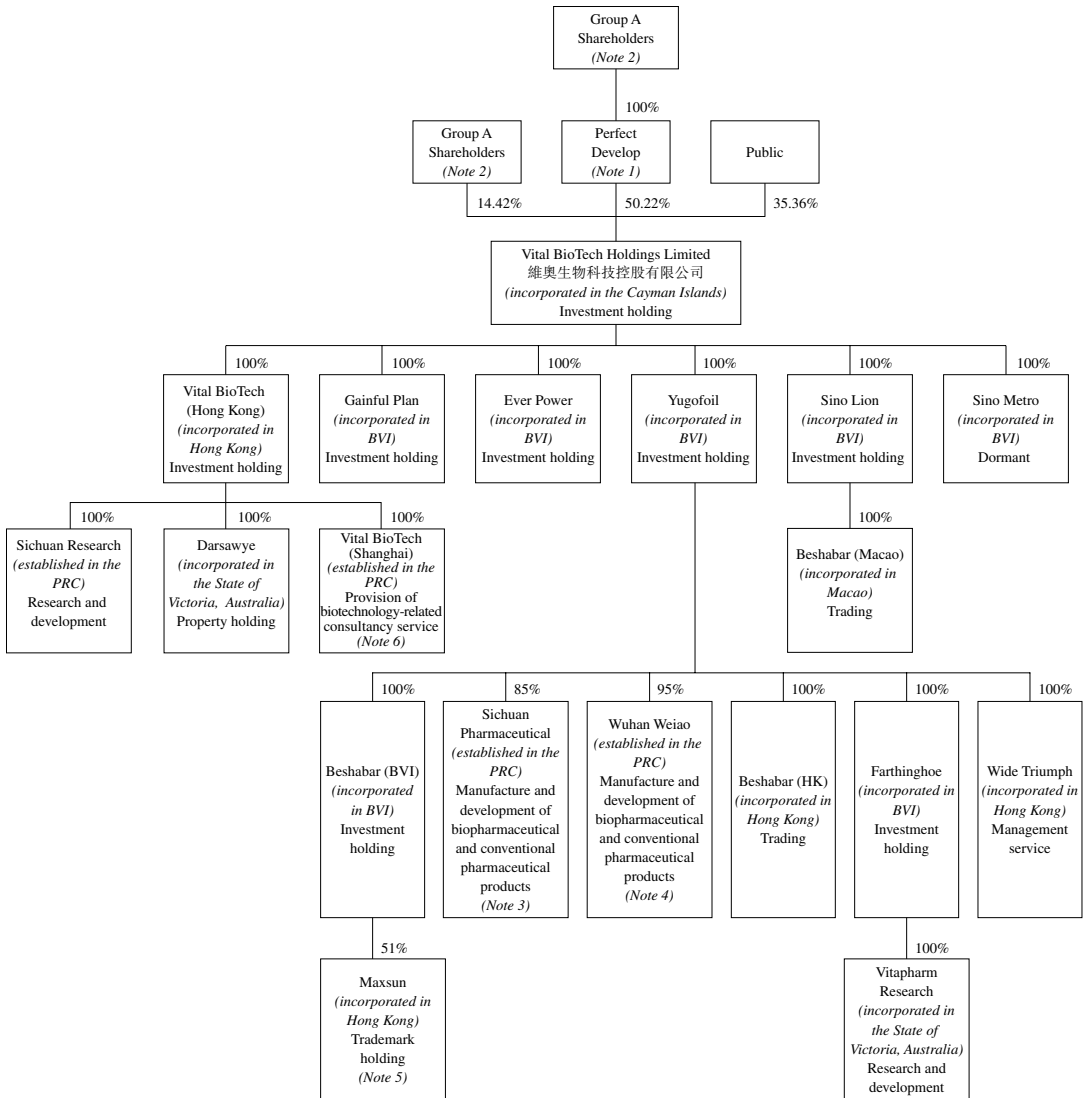
### **ENVIRONMENTAL CONTROL REGULATIONS**

Manufacturing enterprises in the PRC are under the administration of the environmental protection department at the provincial level where the enterprise is located. Different manufacturing enterprises are required to obtain different certificates required under the environmental regulation in the PRC.

Under the environmental regulations in the PRC, manufacturing enterprises are required to apply for the relevant certificates from the local environmental protection authority.

# GROUP STRUCTURE

Set out below is the Group's corporate structure and the principal activities of the members of the Group as at the Latest Practicable Date:





## GROUP STRUCTURE

*Notes:*

1. The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 12% by Mr. Liu and 6% by Mr. Au Yeung (collectively, the “Group A Shareholders”).
2. In addition to their attributable interest in Perfect Develop, each of the Group A Shareholders are the registered owners of certain Shares, the number and percentage of shareholding of which is set out below:

<b>Group A Shareholders</b>	<b>Number of Shares</b>	<b>Shareholding (%)</b>
Mr. Tao	108,480,960 Shares	8.49
Mr. Ko	51,362,600 Shares	4.02
Mr. Au Yeung	8,507,200 Shares	0.67
Mr. Liu	15,849,600 Shares	1.24
<b>Total:</b>	<b><u>184,200,360 Shares</u></b>	<b><u>14.42</u></b>

3. The remaining 15% of the registered capital of Sichuan Pharmaceutical is beneficially owned by Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. (四川康奧醫藥科技開發有限責任公司), a private enterprise in the PRC.
4. The remaining 5% of the registered capital of Wuhan Weiao is beneficially owned by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) which is a wholly owned subsidiary of a state-owned enterprise in the PRC. Wuhan Tianao Pharmaceutical Factory and its holding company, Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所), are independent third parties not connected with the Company, the Directors, the chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.
5. The remaining 49% of the entire issued capital of Maxsun is beneficially owned as to 24% by Ms. Betty Wei Bai and 25% by Mr. Tze-Rou Kuo. Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are the beneficial owners of the entire issued share capital of Pharmco, one of the top five suppliers of the Group.
6. Vital BioTech (Shanghai) is wholly owned by Vital BioTech (HK). According to Supplemental Rules to Certain Rules Regarding the Fulfillment of Registered Capital by the Foreign and PRC Partners of a Sino-Foreign Enterprise (中外合資經營企業合營各方出資的若干規定的補充規定), the accounts of the sino-foreign equity enterprise or wholly foreign owned enterprise cannot be consolidated into the accounts of its investor until the registered capital of the sino-foreign equity enterprise or wholly foreign owned enterprise payable by such investor has been fully paid up. As at the Latest Practicable Date, HK\$500,000 of the registered capital of Vital BioTech (Shanghai) out of HK\$2,000,000 payable by the Group, had been paid up by the Group. The balance of HK\$1,500,000 is paid by the Group and is awaiting capital verification.

## **HISTORY AND DEVELOPMENT**

The Group is a fully integrated, multinational biopharmaceutical corporation engaged in the research, development, manufacture, sale and distribution of biopharmaceutical and conventional pharmaceutical products. Currently, the Group has business operations in Australia, Hong Kong, Macao and the PRC. With its research and development focus on downstream value adding biotechnology processing systems, the Group develops protein stabilisation and various drug delivery technologies which may be adapted to a wide range of applications, such as, in the areas of cytokines, probiotics and vaccines. In addition, the Group manufactures pharmaceutical products and distributes such products through its extensive distribution network in the PRC. This has provided the Group with a steady income stream during the Track Record Period.

The family of Mr. Ko, one of the founders of the Group, has a history in the pharmaceutical industry for four generations, being involved in various pharmaceutical businesses including the manufacture and trading of antibiotics. Mr. Ko has been involved in the research and development, production and distribution of pharmaceutical products for human and veterinary applications in Australia since 1971. In 1997, recognising the potential of the biopharmaceutical market as well as the increasing demand for quality pharmaceutical products in the PRC, Mr. Ko formulated a business strategy aiming to establish a research and development based world-class biotechnology group in the pharmaceutical industry with an emphasis on biopharmaceutical products in the PRC market. The focus on the PRC market and research and development work subsequently became two major areas of the Group's business.

The history of the Group's major subsidiaries is detailed as follows:

### ***Yugofoil***

Yugofoil was incorporated on 11 May 1993 in BVI by Mr. Tao who held one issued share of Yugofoil before the investment in 1997. Yugofoil was an inactive company before April 1997. In April 1997, Mr. Ko, together with the other three founders of the Group, Mr. Au Yeung, Mr. Liu and Mr. Tao, and two other investors, namely Pernanga and Goldfield, acquired 33%, 6%, 12%, 41%, 3% and 4% interest in Yugofoil for a consideration of US\$33, US\$6, US\$12, US\$41, US\$3 and US\$4 respectively (approximately equal to HK\$257.4, HK\$46.8, HK\$93.6, HK\$319.8, HK\$23.4 and HK\$31.2 respectively) the value of which were equal to the registered capital of the relevant shares. Mr. Ko, Mr. Au Yeung and Mr. Liu were also appointed as directors at the time in addition to Mr. Tao who was previously appointed as a director on 11 May 1993. It was only after Mr. Ko, together with the above investors, acquired his interest in Yugofoil that Yugofoil commenced its investment projects in that year. Yugofoil then became owned as to 33%, 6%, 12%, 3%, 4% and 42% by Mr. Ko, Mr. Au Yeung, Mr. Liu, Pernanga, Goldfield and Mr. Tao. Through Yugofoil, various investments in the PRC as set out below were subsequently acquired.

### ***Vitapharm Research***

In April 1998, with a view to capturing the demand for high quality pharmaceutical products for human consumption, Vitapharm Research was incorporated in Victoria, Australia with its entire issued share capital beneficially owned by Mr. Ko, Mr. Liu and Mr. Au Yeung as to 33.33%, 33.34% and 33.33% respectively. Such beneficial interests were held through trust arrangements which involved, (i) declarations of trust all dated 1 April 1998 by King Laboratories and WB Nominees in favour of Mr. Ko in respect of the 20 issued shares of AUD1 (approximately HK\$4) each in Vitapharm Research and (ii) declarations of trust

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dated 1 April 1998 by Mr. Ko in respect of those 20 issued shares (being the entire issued share capital of Vitapharm Research) in favour of Farthinghoe. King Laboratories is a company wholly owned by Ms. Rosa Sau Kam Ko, wife of Mr. Ko, whereas WB Nominees is a nominee company controlled by William Buck, a professional business consultancy and chartered accountants' firm in Australia. Accordingly, the 20 issued shares in Vitapharm Research have at all times been held by the trustees, King Laboratories, WB Nominees and Mr. Ko upon trust for Farthinghoe, the ultimate beneficial owner. In this connection, the Group has obtained Australian legal advice confirming that under the State Law of Victoria the declarations of trust are valid and binding in accordance with their terms and entitle Farthinghoe to require transfers of shares to it, and also that the declarations of trust are not chargeable with stamp duty under the State Law of Victoria. The transfers of shares pursuant to the declarations of trust have also been properly denoted by the State Revenue Office of Victoria, Australia as not stampable. The reasons for having two trust arrangements were as follows:

- (a) upon its establishment in 1998, Vitapharm Research was engaged in discussions with other pharmaceutical companies for co-operation in several projects. The arrangements of entrusting both King Laboratories and WB Nominees to hold the shares of Vitapharm Research on behalf of Mr. Ko were made to ensure that the name of Mr. Ko, who is instrumental in developing the concepts for such co-operation projects, would not be disclosed at the beginning stage of the development of a business venture which was at a particular sensitive stage as to Mr. Ko, Mr. Au Yeung and Mr. Liu since they would have to be particularly careful in the formulation of their business strategies, positioning and negotiation with potential business partners/clients and they were uncertain whether they would succeed in the projects with those pharmaceutical companies;
- (b) the two other shareholders of Farthinghoe, Mr. Au Yeung and Mr. Liu, considered that by using the name of Mr. Ko, who is renowned in the pharmaceutical industry, would be more persuasive in the discussions for co-operation with other pharmaceutical companies. Hence, the arrangement of entrusting Mr. Ko to hold the shares of Vitapharm Research on behalf of Farthinghoe was made; and
- (c) Vitapharm Research was not a major business unit at the time of its establishment, nor did it carry any significant financial risks. Therefore, there was no need for Mr. Au Yeung or Mr. Liu to be recorded as shareholders of the company. The use of nominees simplified corporate documentation and provided administrative convenience to the shareholders of Vitapharm Research.

Based on, inter alia, the information and documents provided by the Group, the statutory declarations provided by the executive Directors and aforesaid the legal opinion from Nevett Ford, the Australian legal advisers to the Company, on the trust arrangements, the Sponsor has satisfied itself as to the appropriateness of the inclusion of Vitapharm Research as a subsidiary of the Company during the Track Record Period.

The reporting accountants of the Company, PricewaterhouseCoopers, have performed sufficient procedures on the aforesaid trust arrangements to satisfy themselves as to the appropriateness of the inclusion of Vitapharm Research as a subsidiary of the Company during the Track Record Period.

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In August 2001, Mr. Ko, Mr. Au Yeung and Mr. Liu considered that the discussions with other pharmaceutical companies were at an advanced stage and the shareholding of Vitapharm Research should be formalised. The shares of Vitapharm Research held by King Laboratories and WB Nominees were transferred back to Farthinghoe, whose name was thereafter entered into the register of members of Vitapharm Research.

Upon the establishment of Vitapharm Research in 1998, Mr. Ko, Mr. Lo-Fai Tsim (“Mr. Tsim”) and Mr. John D’Arcy Evans (“Mr. D’Arcy Evans”) were appointed as directors. Mr. Tsim and Mr. D’Arcy Evans were non-executive directors and were not involved in the daily operations of Vitapharm Research on a full-time basis. They had no equity interest in Vitapharm Research. Both of them took instructions from Mr. Ko in relation to management decisions of Vitapharm Research.

On the other hand, Mr. Ko has, since the incorporation of Vitapharm Research, been actively involved in the management of its business and operation. Mr. Au Yeung has also been involved in the operation of the research centre operated by Vitapharm Research since its incorporation. He was not appointed as a director of Vitapharm Research until September 1999 because it was not necessary do so, given the scale of operation of Vitapharm Research at that time.

To sustain the operations of Vitapharm Research, Mr. Ko and Mr. Au Yeung provided continuous financial support to Vitapharm Research. In April 1998, a shareholder’s loan of AUD50,000 (approximately HK\$200,000) was provided by Mr. Ko to Vitapharm Research. In June 1998, another shareholder’s loan of AUD50,000 (approximately HK\$200,000) was provided to Vitapharm Research by Mr. Ko. A loan of AUD50,000 (approximately HK\$200,000) was provided in March 1999 by Seventeenth Sutus Nominees Pty. Ltd., a company owned by Mr. Au Yeung’s wife. The above loans have been fully settled by the Group on 21 December 2001.

Vitapharm Research has principally been engaged in the research and development of biopharmaceutical and conventional pharmaceutical products, which include biological and OTC products. A site in Melbourne, Australia was rented by the Group to serve as the research and development pilot plant and a laboratory of Vitapharm Research, to conduct research and development and pilot production work relating to processing technologies for (a) biological protein stabilisation and (b) various drug delivery systems. The principles and procedures of the PSD technology was first invented by Mr. Ko together with Mr. Au Yeung on or about 25 January 2001 and the principles and procedures of the SDDS technology was first invented by Mr. Ko on or about 23 November 1999. The most important objective of setting up Vitapharm Research was to commercialise the two platform technologies of the Group. Vitapharm Research adopted two main modes of commercialisation: (i) by way of using the platform technologies to develop sales and income generating products; and (ii) by way of technology co-operation with third parties with the objective of realising future revenue through licence fees, royalties or operation of business joint ventures. In order to support these activities, the Group took steps to secure patent rights in the two platform technologies. These steps involved the initial filing of patent applications for the technologies in Australia after the conception of each technology by Mr. Ko and Mr. Au Yeung. Generally, under Australian Patent Law (Section 15(1), Patents Act 1990), a patent may only be granted to a person who is the inventor of the invention, or a person who would, on the grant of a patent, be entitled to have the patent assigned to him, or a person who derives title to the invention from either of these people. In accordance with these provisions, the Group’s

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patent advisors in Australia were instructed to file the patent applications in the name of either Mr. Ko, or Mr. Ko and Mr. Au Yeung, as inventors of the technologies. The Group made two primary patent applications, which are detailed below, and which may form the basis for filing associated applications in various countries of interest:

- The patent application for the PSD technology was lodged with the Australian Patent Office on 25 January 2001 under Australian Provisional Patent Application No. PR2729 (herein after referred to as the “Australian Application”).

The International Patent Application filed under the International Patent Cooperation Treaty (“PCT”) designates all countries under this treaty in which the patented technology may be pursued. In order to pursue patent protection in one or more designated countries, the Group must file applications by the 30 month deadline from filing Australian Provisional Patent Application No. PR 2729, this being 25 July 2003. Following such filing, the applications will then be subject to standard examination procedures which may include patent searching additional to patent searches made during the PCT stage. Following the examination procedure, individual applications may be accepted for patent grant by the relevant authorities.

Patent applications for the SDDS technology are pending in Australia, Europe, Taiwan, Japan, the PRC and the US. These applications are currently awaiting or undergoing examination, which may include patent searching in addition to that made during the PCT stage. Following the examination procedure, individual applications may be accepted for patent grant by the relevant authorities.

Rights in the inventions comprised in the patents applications for the two platform technologies were transferred from Mr. Ko and Mr. Au Yeung to the Group in June 2001 under two deeds of assignment.

Vitapharm Research has been involved in the later stage of the research and development work on the commercialisation and refinement of the platform technologies, i.e., the actual practical application of the platform technologies in the manufacture of biopharmaceutical and conventional medical drugs for sale on a commercial basis, as opposed to the earlier phase of research and development of the platform technologies on a theoretical and non-revenue generating basis and without targeting the application of the technologies in any particular pharmaceutical product.

During the commercialisation, research and development phase of its active business pursuit, Vitapharm Research rented a site in the outer suburb of Melbourne, Australia to set up a laboratory and pilot production facilities in August 1998. In or about August 1998, Vitapharm Research took delivery of a special key equipment from Germany which is required to implement the PSD technology and for the pilot production of commercial samples.

One of the very first jobs on this equipment was to modify the equipment to make it capable of performing the coating function that is part of the PSD technology. The modification work involved the application of the principles and procedures of the PSD technology to produce samples of Opin in November 1998 with improved stability. This is achieved by applying the work practice, procedures and principles of the PSD technology to the raw materials of interferon to make them more stable at room temperature.

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An example of a project under the first mode of commercialisation of its platform technologies is Vitapharm Research's application of the principles and procedures of the SDDS technology to develop the Spray-on Bandage. The SDDS technology in the Spray-On-Bandage enables antiseptic to be incorporated into that product and the release of the antiseptic to the skin surface of a user by using a polymer film as a medium and without the use of the propellant in the spray. The product was successfully registered as an OTC product by the Australian Therapeutic Goods Administration ("TGA") in April 1999 and hence allowed for free sale in Australia under the relevant regulation governing OTC therapeutic goods.

After the above product registration, market trials of Spray-On Bandage were launched in Thailand, Australia and Taiwan in January 2000, March 2000 and June 2000 respectively. After reviewing the market results, the Directors concluded that more marketing efforts were required for promoting this product in the above markets, and the Directors did not consider it worthwhile to spend significant effort on promoting this product in those markets. The Group then adopted an alternative strategy of licensing the SDDS technology together with this product to a third party and lodged an application in November 2001 for registration with the SFDA. Such application was approved by Sichuan Health Bureau in February 2002. As such, no sales of this product was recorded for the two years ended 31 December 2002. Up to the Latest Practicable Date, the Group has identified a suitable business partner in Qingdao, Shandong Province, the PRC for the launch of this product in the PRC and negotiation is still on-going.

To protect the commercial interest of the Group in respect of the SDDS technology, Mr. Ko lodged a patent claim with the Australian Patent Office in November 1999. The Group subsequently applied for patents in Europe, Taiwan, Japan, the PRC, the US and Australia. The applications are still in progress.

Mr. Ko and Mr. Au Yeung, as directors of Vitapharm Research, also worked on the commercialisation of the PSD technology by attempting to develop commercial products out of the technology. Some examples of the work in this regard included investigation on the stability of probiotic, which commenced in March 2000, pre-clinical investigation on the stability and bio-availability on erythropoietin (EPO), which commenced in November 2000, and formulation on receptase, which commenced in November 2000.

To protect the commercial interest of the Group in respect of the PSD technology, Mr. Ko and Mr. Au Yeung lodged a provisional patent application with the Australian Patent Office in January 2001. The Group subsequently applied for patents in Taiwan and the US. The applications are still in progress.

A lysozyme based product has also been successfully developed. The product is categorised as a cosmetic product for hair tonic and is related to enzyme stabilisation. In addition, Vitapharm Research has utilised the platform technologies in enhancing the quality of Opin since the acquisition of Wuhan Weiao in November 1998 by assigning Mr. Ko and Mr. Au Yeung to undertake further study of the stability of Opin, together with the assistance of Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所). Vitapharm Research has also developed other product concepts based on the two platform technologies which are currently under various stages of development as set out in the sub-paragraph headed "Products under development" under the paragraph headed "Products" of this section.

For the second mode of commercialisation of its platform technologies, Vitapharm Research has also engaged in soliciting contacts with potential technology co-operation partners, for co-operation in product testing, registration and other preliminary work for commercialisation. Vitapharm Research is discussing co-operations with various international pharmaceutical companies. Further details are set out in the sub-paragraph headed “Strategic alliance/technology transfer/business venture” of this section. These activities are also based on the two platform technologies of the Group. These two modes of commercialisation have been and will form the main pattern of the business activities of Vitapharm Research.

To cope with the enlarging research scope and business scale, the Group acquired a plot of land together with a building in Rowville, Victoria, Australia with a site area of approximately 1,309 sq.m. through Darsawye in July 2002. Such premises are constructed in phases and used as research and development centre and administration office. Part of the laboratory area of the premises is constructed with reference to GMP standards. The phase I construction process has commenced immediately upon gaining access to the property in March 2003. The phase I construction process is expected to be completed by September 2003. An interim temporary facility has been set up on site to maintain current level of administrative and research and development activities, and the whole construction plan is expected to be completed by 2005.

As stated in the Prospectus, the original proposal of the above project was to lease a GMP equipped property in Melbourne, Australia. After further due diligence, the Directors concluded that the leasing option was uneconomical because of the high leasing cost involved and the potential difficulty in finding a suitable property available for lease that would satisfy the unique requirement of the Group. The Directors subsequently approved a new proposal to acquire a warehouse and refurbish it into a purpose-built laboratory and pilot production centre by stages. The property was acquired at a cost of AUD925,000 and settlement was completed in October 2002. The first stage of refurbishment will be completed by September 2003 at a cost of about AUD900,000 (construction and equipment cost inclusive). The estimated total cost of the whole project, taking into account the cost of acquisition of the property and all subsequent refurbishments, will be about AUD2,400,000. The Directors believe that the total costs of the project will be within the intended use of proceeds from the Placing.

### ***Wuhan Weiao***

One of the major investments of the Group in the PRC was the acquisition of Wuhan Weiao, a joint venture established in the PRC. In 1996, the entire issued share capital of Wuhan Weiao was held as to 30% by Wuhan Weiao Pharmaceutical Factory (武漢天奧製藥廠), as to 37% by Wuhan Heng Yuan Decoration Company Limited (武漢恒源裝飾有限公司) and as to 33% by Bright Future. Wuhan Weiao possesses a pharmaceutical production licence granted by the Hubei Pharmaceutical Regulatory Department and is a manufacturer of “Opin”, which was a “Class 2 new drug” (classified under the pre-1999 regulations) and an interferon based pessary for the treatment of chronic cervicitis.

The acquisition of Wuhan Weiao occurred in several stages. On 30 October 1998, Yugofoil acquired from Bright Future a 70% interest in Wuhan Weiao in consideration of HK\$500,000. Subsequent to Yugofoil entering into the relevant share transfer agreement with Bright Future, Bright Future made a declaration of trust dated 10 November 1998 in respect of the interest in Wuhan Weiao registered under its name in favour of Yugofoil. The declaration of trust was not properly stamped. The background of and reasons for such trust arrangement are explained below.

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The Group's relationship with Bright Future prior to the acquisition of the interest in Wuhan Weiao can be traced back to the long-term working relationship between Mr. Huang Jian Ming ("Mr. Huang") and Mr. Shen Song Qing ("Mr. Shen") who were appointed as directors of Yugofoil on 1 May 1997, and Mr. Chan Chak Yeung ("Mr. Chan") and Mr. Wong Cheong Moon who are the directors of Bright Future. Mr. Shen and Mr. Huang were appointed as the directors of Wuhan Weiao in October 1996 and January 1997, respectively. Prior to their becoming directors of Wuhan Weiao, both Mr. Huang and Mr. Shen had extensive experience in managing pharmaceutical business in the PRC. In particular, Mr. Shen had been closely involved in the sales and marketing of pharmaceutical products. Thus, they came to know Bright Future, which was promoting a pharmaceutical product quite successfully in the PRC at that time. In October 1996 and January 1997, Bright Future invited Mr. Huang and Mr. Shen to act as the directors of Wuhan Weiao as nominees of Bright Future on the board of Wuhan Weiao. Throughout the years, Mr. Huang and Mr. Shen developed a close working relationship with Mr. Chan.

Mr. Huang and Mr. Shen were also long-term acquaintances of Mr. Tao, one of the founders of the Group. Mr. Tao, Mr. Huang and Mr. Shen came to know each other when they were young as they came from the same region in Sichuan Province, the PRC. When Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu commenced their business plan which involved the use of Yugofoil as an investment vehicle for investment in the PRC, Mr. Tao proposed and Mr. Ko, Mr. Au Yeung and Mr. Liu agreed to invite Mr. Huang and Mr. Shen, who were experienced in the Chinese medicine business and familiar with the PRC business operation, to join the board of Yugofoil in May 1997 and to assist in exploring investment and business opportunities in the PRC. Mr. Shen and Mr. Huang acted as the directors of Yugofoil on a part-time basis in 1997 and received no salary from Yugofoil. Except for Mr. Ko, Mr. Au Yeung and Mr. Liu, all directors, including Mr. Shen and Mr. Huang, started to receive monthly salary from Yugofoil in August 2000.

In late 1998, when Mr. Huang and Mr. Shen, who were directors of Wuhan Weiao, became aware of the intention of Bright Future to dispose of its interest in Wuhan Weiao, they recommended the investment opportunity to Yugofoil as they believed that Wuhan Weiao and Yugofoil had synergy in terms of the technology know-how which could improve the business and prospects of Wuhan Weiao.

When Wuhan Weiao was identified by the Group as the first investment project of developing the market of biopharmaceutical products in the PRC, Wuhan Weiao was in financial difficulties. However, the Directors at that time believed that they could improve the operating results of Wuhan Weiao by applying the platform technologies invented by Mr. Ko and Mr. Au Yeung to the production process of Opin. The Directors believe that the consideration of HK\$500,000 for a 70% interest in Wuhan Weiao was not unfair given the loss suffered by Wuhan Weiao, and that the consideration was agreed between the parties at the relevant time based on arm's length negotiations. Although the consideration arrived at was not based on any financial figures of Wuhan Weiao at the relevant time, the Directors believe that the consideration was fair and reasonable as far as Wuhan Weiao is concerned. The HK\$500,000 was borrowed by Mr. Tao from his uncle and was paid by Mr. Tao in cash to Mr. Chan, one of the ultimate controlling shareholders of Bright Future, on behalf of Yugofoil.

As a result of these long-standing relationships and the recommendation made by Mr. Huang and Mr. Shen that Mr. Chan and Mr. Wong Cheong Moon were trustworthy, the Directors determined that Bright Future could be entrusted with the responsibility of holding the Group's interest in Wuhan Weiao.



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The Directors considered that as Wuhan Weiao was at that time in financial difficulties, the trust arrangement would serve the purpose of maintaining the stability of Wuhan Weiao by avoiding or minimising the following possible unfavourable implications which may arise from disclosing the change in shareholding in Wuhan Weiao:

- the creditors, in view of the change in controlling shareholder and in order to ensure recoverability of trade debts, might request for immediate settlement of debts (including undue debts) from Wuhan Weiao. This would create an immediate cashflow problem for Wuhan Weiao;
- Yugofoil, as a new controlling shareholder, might not be able to maintain the business relationship between the former investment parties of Wuhan Weiao and its suppliers. This might possibly affect the supply of raw materials to Wuhan Weiao; and
- customers might lose their confidence in the quality and readiness in supply of products by Wuhan Weiao under the new management by Yugofoil, and thus reduce their sales orders placed to Wuhan Weiao which would exacerbate the operational loss of Wuhan Weiao.

Furthermore, since April 1997, Yugofoil has held the entire issued share capital of Beshabar (BVI) which was also a sole distributor of Osteoform in the PRC. The Directors considered that should the goodwill of Yugofoil, being the ultimate holding company of Beshabar (BVI), be adversely affected as a result of the liquidation or other restructuring of Wuhan Weiao, the sole distributor right of Osteoform held by Beshabar (BVI) might also be affected. Hence, the Directors considered that the trust arrangement would minimise the risk of jeopardising the goodwill of Yugofoil.

The PRC legal advisers to the Company have confirmed that (a) although the trust agreement was not entered into under the laws of the PRC, which require that any changes in the shareholding of a foreign investment company should be approved by and registered with the relevant PRC authorities, the trust arrangement would normally be respected by the PRC authorities in the absence of disputes between the parties thereto, as it did not contravene any jus cogens of the laws of the PRC; (b) even if Bright Future now claims any entitlement to the interests in Wuhan Weiao against Yugofoil, it would be time-barred under the laws of the PRC; and (c) under the laws of the PRC, there would not be any substantial legal risks in Yugofoil's interests obtained under such trust arrangement.

Based on, inter alia, the information and documents provided by the Group, the statutory declarations provided by the executive Directors and the legal opinion from Shu Jin & Co. Solicitors & Attorneys, the PRC legal advisers to the Company, on the aforesaid trust arrangement, the Sponsor has satisfied itself as to the appropriateness of inclusion of Wuhan Weiao as a subsidiary of the Company during the Track Record Period.

The reporting accountants of the Company, PricewaterhouseCoopers, have performed sufficient procedures on the aforesaid trust arrangement to satisfy themselves as to the appropriateness of inclusion of Wuhan Weiao as a subsidiary of the Company during the Track Record Period.

In light of the considerations set out above, the Trust Agreement was entered into between Bright Future and Yugofoil in November 1998 and the 70% interest in Wuhan

Weiao acquired by Yugofoil from Bright Future was held by Bright Future as a nominee on trust for Yugofoil until about December 2000 when the foreign investment office in Wuhan approved the transfer of interest in Wuhan Weiao held in the name of Bright Future to Yugofoil. Taking into account the mutual trust among the parties arising from the long term relationship and considering that Wuhan Weiao was at that time in serious financial difficulties and was therefore considerably less valuable than it is at present, the Group took the view that the documents and the relationship between the parties provided sufficient comfort and protection of the interest of the Group in Wuhan Weiao and therefore had not taken any other action to further protect the Group's interest in Wuhan Weiao.

On 30 December 1998, Bright Future, acting as a trustee of Yugofoil and upon the instruction of Yugofoil, entered into a share transfer agreement with Shenzhen Jin Bei Sheng Investment Limited (深圳市金北聖投資有限公司) ("Jin Bei Sheng") to transfer a 45% equity interest in Wuhan Weiao to Jin Bei Sheng at a consideration of RMB9,710,000. The reason for the disposal was that Yugofoil considered that the consideration offered by Jin Bei Sheng for the 45% interest in Wuhan Weiao was relatively high compared with that paid by Yugofoil for the acquisition of its 70% interest in October 1998 (having a return of approximately 30 times). Thus, Yugofoil considered it commercially appealing to dispose of certain of its interests in Yugofoil within a period of 2 months' time given such high rate of return while the Group would still be holding a 25% interest in Wuhan Weiao. Further, Yugofoil considered at that time the acquisition would be beneficial to Wuhan Weiao and its then shareholders as a whole in that Jin Bei Sheng then appeared to be a company with solid financial background. Yugofoil believed Wuhan Weiao's financial resources could be further improved for the benefit of the future development of Wuhan Weiao. Taking these matters into consideration, Yugofoil thus agreed to sell 45% interest of Wuhan Weiao to Jin Bei Sheng approximately 2 months after its initial acquisition. The transfer of the 45% interest in Wuhan Weiao to Jin Bei Sheng was approved by the relevant authorities in January 1999. On or about 29 January 1999 the appointment of four directors to the board of Wuhan Weiao by Jin Bei Sheng was approved by the relevant authorities, the resignations of three of whom were approved on or about 2 June 1999 and the resignation of the remaining one was approved on or about 13 October 1999. Jin Bei Sheng defaulted in payment of the purchase consideration and as a result, Bright Future, acting as a trustee of Yugofoil entered into a share transfer agreement with Jin Bei Sheng in May 1999, pursuant to which Jin Bei Sheng agreed to transfer the 45% equity interest in Wuhan Weiao back to Bright Future. The transfer back of equity interest was considered a remedial action and no actual money changed hands. In June 1999, Yugofoil instructed Bright Future to acquire a 10% equity interest in Wuhan Weiao from Jin Bei Sheng at a consideration of RMB1,000,000 (or approximately HK\$943,396.23) settled in cash pursuant to an agreement with Jin Bei Sheng and Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) entered into by Bright Future acting as a trustee of Yugofoil. The background of the above acquisition is as follows: in December 1998 when Jin Bei Sheng acquired the 45% interest in Wuhan Weiao from Yugofoil, Jin Bei Sheng also acquired a 10% interest in Wuhan Weiao from the other shareholder of Wuhan Weiao, Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠). When Jin Bei Sheng later defaulted in payment to both Yugofoil and Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠), while Yugofoil was prepared to acquire the 45% interest back, Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) was not prepared to do so and intended to dispose of the 10% interest which was due to be returned by repossession from Jin Bei Sheng. Following negotiation between Bright Future, on behalf of Yugofoil, with Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠), Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) agreed to allow Yugofoil to acquire the 10% interest from Jin Bei Sheng.

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On 7 December 1999, Jin Bei Sheng made a declaration that it had not been involved in the management of Wuhan Weiao and admitted that it was not entitled to any interest and right in Wuhan Weiao thus far.

The approval for the above transfer was obtained in October 1999. On 20 October 1999, Yugofoil, through its nominee, Bright Future, entered into an agreement with the PRC joint venture partner Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) for the acquisition of a further 10% interest in Wuhan Weiao for a consideration of RMB1,050,000 (or approximately HK\$990,566). The approval for the transfer was obtained in December 1999.

To formalise the shareholding of Wuhan Weiao, on 22 November 2000, Wuhan Weiao applied to the PRC original approving authority for the approval of the transfer of 90% interest from Bright Future back to Yugofoil. In December 2000, the PRC original approval authority approved the transfer.

On 27 July 2000, Yugofoil entered into an agreement with the then PRC joint venture partner Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) to acquire a further 5% interest in Wuhan Weiao for a consideration of RMB600,000 (equivalent to approximately HK\$566,038). The transfer was approved by the PRC original approving authority in January 2001 and, since then, the Group has an aggregate of 95% interest in Wuhan Weiao. The consideration for the acquisition of the aggregate of 25% interest in Wuhan Weiao from Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) in about June and October 1999 and July 2000 was settled by the Group by three remittances on about 21 June 2001, 26 June 2001 and 29 August 2001 as to the respective amount of USD70,000, USD73,000 and USD171,630 (totalling US\$314,630, currently equivalent to approximately HK\$2,454,114).

After the acquisition of interests in Wuhan Weiao, the Group has exercised essential control over the management of Wuhan Weiao through the Group's management team led by Mr. Ko. When the Group acquired the 70% interest in Wuhan Weiao on 30 October 1998, the board of directors of Wuhan Weiao consisted of seven directors, five of whom were appointees of Bright Future and two of whom were appointees of Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所). On the understanding that the five directors appointed by Bright Future would represent the interests of Yugofoil, there were no changes in the board of directors of Wuhan Weiao immediately before or after the Group's acquisition of the 70% interest in Wuhan Weiao.

Wuhan Weiao is principally engaged in the manufacture of Opin. On 30 October 1998, Yugofoil appointed Mr. Huang and Mr. Shen, who were directors of Yugofoil, to be Yugofoil's representatives on the board of directors of Wuhan Weiao. Mr. Huang and Mr. Shen were in charge of managing the daily operations of Wuhan Weiao after the appointment. On 12 January 1999, Mr. Shen resigned from the board of Wuhan Weiao while Mr. Huang continued his dual directorships in both Yugofoil and Wuhan Weiao. Since then, Mr. Huang has been the designated representative from Yugofoil in Wuhan Weiao's management board.

While Mr. Huang and Mr. Shen were authorised by Yugofoil as its representatives in managing the daily business of Wuhan Weiao, Mr. Ko assisted Wuhan Weiao's technical staff in solving various technical problems with the objective of improving the stability of Opin. Since November 1998, Mr. Ko, Mr. Liu and Mr. Au Yeung had paid numerous visits to the PRC and communicated with Wuhan Weiao's technical staff, resulting in steady general improvement of the business. In particular, since the Group acquired Wuhan Weiao,

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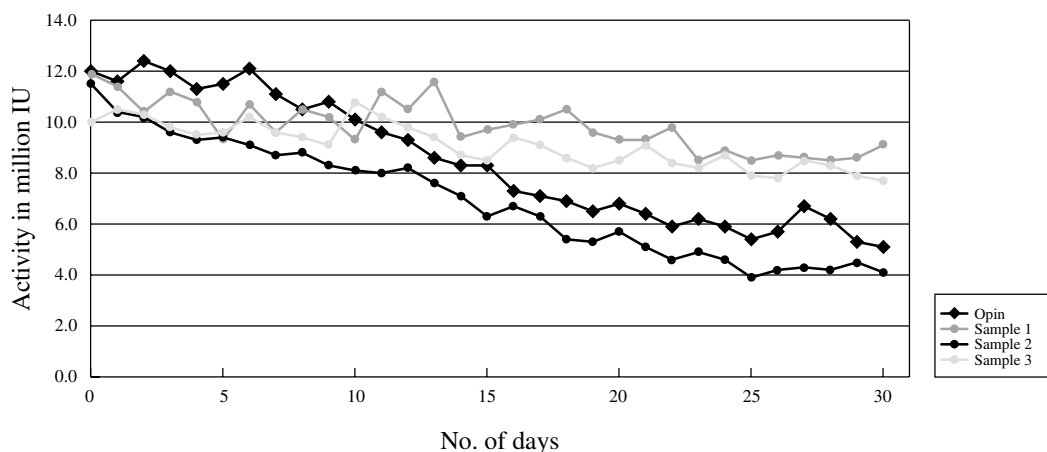
Mr. Ko's primary direct involvement with Wuhan Weiao has been the provision of advice on the production and improvement of Opin. For this purpose, Mr. Ko travelled to Wuhan Weiao initially to develop an on-site understanding of the production process and facilities. Mr. Ko also supplied samples from Australia for testing in the PRC to prove the applicability of the PSD technology. Mr. Au Yeung played a similar role at that time advising principally on the research and development of the Group's platform technologies and the application of such technologies to Opin.

In November 1998, Mr. Ko and Mr. Au Yeung assisted Wuhan Weiao in performing a research study on the stability of Opin in collaboration with Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所). Shortly thereafter, a research report was issued by this institute indicating that stability of the original Opin was not up to the standard of the samples provided by Mr. Au Yeung and Mr. Ko or the national standard. As stated in the research report, a temperature stability study was carried out with samples of Opin supplied from Wuhan Weiao and 3 batches of interferon pessary with a slight variation in processing criteria and formulation details, supplied by Mr. Ko from Australia. The study was carried out among the temperature range 22-25°C, 37°C and 43°C for a period up to 30 days. The result indicated that two formulations have proven to be more stable and within the national standard at the end of the testing period which evidences the temperature stability of Opin can be improved by using the PSD technology.

### A summary of temperature stability study of Opin with and without PSD technology at 22°C to 25°C

Interferon activity in million IU	Time line in days			
Sample Name	0	10	20	30
Opin	12.0	10.1	6.6	5.1
Sample 1: Opin with PSD technology	11.9	9.3	9.3	9.1
Sample 2: Opin with PSD technology	11.6	8.1	5.7	4.1
Sample 3: Opin with PSD technology	10.0	10.8	8.9	7.1

### Temperature stability study of Opin



*Note:* Samples 1, 2 and 3 were embedded with PSD technology with slight variation in processing criteria and formulation.

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During his visits to Wuhan Weiao and after various meetings with the technical staff in Wuhan Weiao, Mr. Ko identified that there was minimum pre-treatment to the active ingredient, interferon, which was added directly onto the base material unprotected and subject to unacceptable heat treatment in the subsequent process of manufacturing.

Mr. Au Yeung and Mr. Ko then presented their recommendation on the pre-treatment of interferon to improve the production process of Opin. An official recommendation was made by Mr. Ko and Mr. Au Yeung to Wuhan Weiao in November 1998 that a special type of processing equipment, fluid bed, was required to be used for the bio-encapsulation process. The PRC partner, the Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所), had a set of the equipment that satisfied Mr. Ko's requirements. Mr. Ko used this special equipment to apply the PSD technology and derived a set of production procedures that was applicable using the existing facilities and resources at that premises. This involved the following steps:

- pre-treating the interferon in the fluid bed using the bio-encapsulation process with a coating solution;
- the coating protects the interferon from excessive exposure to air;
- treating the base material in a separate process because this process involves the application of excessive heat; and
- the pretreated interferon is then added back into the process afterwards just prior to pressing into a pessary.

This procedure proposal was accepted and implemented by Wuhan Weiao.

Wuhan Institute of Virology is a branch of the Chinese Academy of Sciences, one of the PRC's leading academic institution and comprehensive research and development centre in natural sciences, technological sciences and high-tech innovation. Other than having a 5% indirect interest in Wuhan Weiao through its subsidiary Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠), Wuhan Institute of Virology is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Except for the research report issued by Wuhan Institute of Virology of the Chinese Academy of Sciences, no other research report regarding Opin was issued.

In April 2002, SFDA acknowledged the receipt of the Group's application for new drug registration and production permit of Opin as a "Class 5" new drug with extended indication.

In September 2002, in order to comply with the GMP standards required by SFDA, Wuhan Weiao commenced developing a GMP compliant plant with a site area of approximately 34,845 sq.m. in Wuhan, the PRC. The plant will be completed in phases around year 2003 and 2004. The first phase of the plant is expected to account for a total gross floor area of about 13,692 sq.m.. Production lines operating in the existing plant in Wuhan will be gradually shifted to the new GMP compliant plant in accordance with the construction schedule. The Directors expected that the new GMP compliant plant will commence operation in or around August 2003. Once the new GMP compliant plant is ready

to be in full operation, the Group will cease the operation of its existing plant in Wuhan, the PRC and will terminate the lease agreement with respect of that plant.

The total cost of construction is expected to be around HK\$28.3 million and together with equipment, facilities and other costs, the total project is expected to cost around HK\$40 million. The intended use of proceeds from the Placing for establishment of the new production lines in Sichuan Province, the PRC was HK\$18 million. The Directors expect that the excess portion will be financed by profits generated from the Group's sales and/or banking facilities.

As the total investment of Wuhan Weiao increased as a result of the establishment of the GMP compliant plant, Wuhan Weiao has to increase its registered capital in order to comply with the relevant PRC laws and regulations. In July 2002, Wuhan Weiao increased its registered capital from RMB7,140,000 to RMB18,000,000 by way of capitalising part of its retained profits and cash injection.

In March 2003, the Group's application for new drug registration and production permit of Opin as a new drug with extended indication was approved by SFDA. The Group planned to launch a new series marketing and promotion activities, such as, placing advertisements in magazines and hospitals, to reinforce the market recognition of Opin.

### ***Beshabar (BVI), Beshabar (HK) and Beshabar (Macao)***

Another major PRC business developed by the Group is the marketing and distribution of Osteoform, an American amino acid chelate calcium supplement, in the PRC. This was the main reason for the establishment of Beshabar (BVI). Beshabar (BVI) was incorporated in BVI on 22 April 1997 as a wholly owned subsidiary of Yugofoil and was engaged in the business of marketing Osteoform. Beshabar (BVI) obtained the sole distribution right of Osteoform from Pharmco for the PRC market in May 1997. Pharmco is a Texas corporation carrying on business under the name of IMAX International, the entire issued capital of which is owned by Ms. Betty Wei Bai and Mr. Tze-Rou Kuo. Ms. Betty Wei Bai and Mr. Tze-Rou Kuo hold, in aggregate, 49% equity interest in Maxsun.

Taking into account the lack of experience and distribution network of the Group in the PRC at that time to promote pharmaceutical products, the Group entered into a co-operation agreement in June 1997 with Mas International (HK) Company Limited ("Mas"), a pharmaceutical trading company in Hong Kong and an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Pursuant to the co-operation agreement, it was agreed that all the business of sales and distribution of Osteoform in the PRC would be done through the co-operation of Beshabar (BVI). Pursuant to the co-operation agreement, Beshabar (BVI) was responsible for, inter alia, ensuring the continuity of the sole distribution rights and the rights to use the trademark of Osteoform granted by Pharmco, participating in the determination of sales models, pricing, establishment of sales points and selection of distributors in the PRC in connection with the distribution of Osteoform, and providing training and introduction of the product to distributors in the PRC. Mas was responsible for, inter alia, providing all funds required for the co-operation in the business of sales and distribution of Osteoform in the PRC, handling of the whole process of import and export of Osteoform from the US and to the PRC respectively. The co-operation agreement with Mas was extended by oral agreement between the parties for

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two months upon its expiry in June 2000 and was terminated in August 2000, as the Directors considered that the brand name of Osteoform was well established in the PRC market and the Group has also developed its own distribution network through the sales of Opin.

To delineate its investment holding activities from its trading activities, Beshabar (HK) was incorporated in August 2000. Beshabar (HK) was principally engaged in the import of Osteoform raw material and export of Osteoform capsules. The raw material of Osteoform was purchased from Pharmco and the Marketing and Distribution Agreement was negotiated and concluded in the US. Beshabar (HK) also entered into a processing agreement with Bright Future for sub-contracting the en-capsulation and packing processes of Osteoform. Import shipments for raw material from Pharmco was directly sent to and received by Bright Future. Export shipments of Osteoform capsules were directly ex-factory from Bright Future to the customers of Beshabar (HK) in the PRC. Beshabar (HK) has entered into agency agreements giving the independent agents full authority to negotiate and conclude sales contracts in the PRC with wholesalers on its behalf. To better control the cost of sales and synchronise with the marketing activity, the Group ceased to sub-contract the production and packaging process of Osteoform to Bright Future since September 2002. The Group has conducted the production and packaging process at the Group's production plant in Chengdu, Sichuan Province, the PRC.

On 20 July 2000, Beshabar (HK) entered into a non-exclusive distribution agreement with Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) for the distribution of Osteoform in the PRC. On 26 November 2000, the two parties entered into a new non-exclusive distribution agreement for a term of 3 years for the distribution of Osteoform in the PRC. Subsequently, on 28 November 2000, Beshabar (HK) entered into another non-exclusive distribution agreement for a term of 3 years with Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) with a view to expanding the market coverage of Osteoform in the PRC. Both Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) and Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) were independent third parties not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

On 26 December 2000, Beshabar (HK) entered into the Marketing and Distribution Agreement with Pharmco in the US for a term of 20 years whereby Beshabar (HK) was granted an exclusive right to distribute Osteoform in the PRC and other markets consisting of Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macao, Malaysia, New Zealand, North Korea, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. The territories covered by this Marketing and Distribution Agreement can be amended by Pharmco unilaterally.

To take advantage of the low tax rates and low administration costs in Macao, the Group incorporated Beshabar (Macao) in Macao on 18 March 2002 as an additional trading arm of the Group. On 31 May 2002, the New Marketing and Distribution Agreement was entered into between Beshabar (Macao) and Pharmco for a term of 20 years. The terms of the new agreement are identical to the former agreement entered into between Beshabar (HK) and Pharmco, which has been properly terminated. Under the current arrangement, Beshabar (Macao) directly purchases the raw materials for the production of Osteoform from the supplier, Pharmco, in Texas, US. The New Marketing and Distribution Agreement was negotiated, concluded and signed with Pharmco in the US. Shipment is arranged between

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offices of the Group in Macao, Shanghai and Sichuan Province with the supplier. Direct shipment is mainly CIF US/Chengdu via Shanghai. Purchase orders placed with the supplier are coordinated by Beshabar (Macao) in Macao. Import financing is arranged by Beshabar (Macao) at local Macao banks. All logistics before cargo arrival in Shanghai are arranged by Beshabar (Macao) in Macao. All inland logistics in Shanghai/Sichuan are arranged by the Shanghai office of the Group. All settlements of import to Macao and export from Macao are transacted in Macao. Beshabar (Macao) gains gross profit margin of approximately 10% from acting as the sole regional distributor of Osteoform for 20 years covering numerous territories including the PRC pursuant to the New Marketing and Distribution Agreement. Sichuan Pharmaceutical undertakes the production, processing and sale of Osteoform products in the PRC.

### *Sichuan Pharmaceutical*

Apart from the above PRC investments, the Group has recognised the vast potential of western PRC and has been looking for investment opportunities in that region. Sichuan Pharmaceutical is a pharmaceutical company established in the PRC on 8 January 1998 and possesses a pharmaceutical production licence granted by the Sichuan Provincial Pharmaceutical Regulatory Department for the manufacture of drugs. Pursuant to a capital transfer agreement on 15 August 2000 entered into between Yugofoil and Mas, which was approved on 3 November 2000 by the relevant PRC authorities, Yugofoil acquired 30% of the registered capital in Sichuan Pharmaceutical from Mas for a consideration of RMB900,000 (approximately HK\$849,057). Furthermore, on 20 August 2000, Yugofoil invested a sum of RMB6,000,000 (approximately HK\$5,660,377) in Sichuan Pharmaceutical, thereby increasing its shareholding interest in Sichuan Pharmaceutical to 76.7%. Mas is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Prior to the Group's acquisition of equity interest in Sichuan Pharmaceutical, Sichuan Pharmaceutical held production permits which allowed the manufacture of several Chinese pharmaceutical products and was engaged in the production of several such products. Such production was terminated after the acquisition of equity interest of Sichuan Pharmaceutical by the Group. The purpose of the acquisition of Sichuan Pharmaceutical is to utilise Sichuan Pharmaceutical's existing business licence, certificates and permits to obtain approvals from the relevant PRC authorities for the construction of a new GMP compliant production plant in Chengdu, Sichuan Province, the PRC. The Chengdu production plant obtained its GMP certification from the relevant PRC authorities in December 2001 and commenced commercial production in the first quarter of 2002. As at the Latest Practicable Date, the permitted business scope of the Chengdu production plant is the production and sale of Chinese and Western medicines.

On 22 May 2002, the Company increased its equity interest in Sichuan Pharmaceutical from 76.7% to 85% by way of injection of capital and thus the registered capital of Sichuan Pharmaceutical increased from RMB9,000,000 to RMB25,000,000. The additional capital injected was financed by internal resources of the Group.



***Sichuan Research***

In order to further strengthen the research and development work of the Group and to capture business opportunities arising from the development of the northern and western regions of the PRC, Sichuan Research was established in the PRC in 25 July 2001 as a wholly owned subsidiary of Vital BioTech (Hong Kong). Sichuan Research is principally engaged in the research and development of biopharmaceutical products and conventional pharmaceutical products. The capital of the company was financed partly by internal funds amounting to USD0.21 million and partly by the proceeds from the Placing amounting to USD1.19 million. The entire project of establishing the research and development centre in Sichuan Province, the PRC was budgeted at HK\$27 million, inclusive of all construction, facilities and equipment costs. The Directors expect that the total investment costs for this project should be within budget.

The original business plan was that the research and development centre in Sichuan, the PRC is to be owned and operated by Sichuan Research in order to assume the Group's research and development functions in the PRC.

Since the land, where the research and development centre situates, is owned by Sichuan Pharmaceutical whereas the building for the research and development erected on such land is owned by Sichuan Research, the Directors considered that there might be administrative difficulties in applying for the building ownership certificate upon completion of the research and development centre.

To ensure the issue of the building ownership certificate and for taxation purposes in relation to the land transfer from Sichuan Pharmaceutical to Sichuan Research, the Directors decided to transfer the interest of the research and development centre to Sichuan Pharmaceutical at cost. Therefore, on 3 March 2003, Sichuan Research and Sichuan Pharmaceutical entered into an agreement pursuant to which Sichuan Research agreed to transfer to Sichuan Pharmaceutical the ownership right of the building constructed on the land owned by Sichuan Pharmaceutical at cost after completion of the development. Sichuan Research shall continue to pay for the remaining costs for the construction works of the development until completion of the project. The building ownership of the completed development shall be registered under the name of Sichuan Pharmaceutical.

Upon completion of the research and development centre, Sichuan Pharmaceutical will lease the research and development centre to Sichuan Research on the basis of recovering its operating costs and overheads at par.

As at the Latest Practicable Date, the structure and portion of the partitioning wall of the research and development centre were completed and the foundation works of route and path were finished. Currently, the Directors expect that the construction work will be completed by the end of June 2003 and the Group expects the implementation of GLP to take place by 2004.

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### *Ever Power and Gainful Plan*

Ever Power and Gainful Plan are currently holding the pending patent applications of the Group, particulars of which are set out in the paragraph headed “Intellectual property rights of the Group” of Appendix IV to this document. Pursuant to a deed of assignment dated 16 June 2001 entered into between Gainful Plan, as assignee, and Mr. Ko and Mr. Au Yeung, as assignors, for the assignment of all right, title and interest in an invention entitled “Method of preparing biological materials and preparations produced using the same” relating to the PSD technology which is the subject of Australian Provisional Patent Application No. PR2729, the Group acquired its ownership of this patent application.

Pursuant to a deed of assignment dated 16 June 2001 entered into between Ever Power, as assignee, and Mr. Ko, as assignor, for the assignment of all right, title and interest in the International Patent Application No. PCT/AU00/01419, entitled “Novel compositions and methods” relating to the SDDS technology, the Group acquired its ownership of this patent application.

These assignments were effected in June 2001 when the applications for the relevant patent rights, which were filed during the period from November 2000 to January 2001, had reached a more advanced stage. Set out below are details of capital injections made into Ever Power and Gainful Plan.

<b>Company</b>	<b>Shareholder</b>	<b>No. of share held</b>	<b>Amount paid per Share</b>	<b>Date of acquisition</b>
Ever Power	Mr. Ko	1	US\$1	16/6/2001
	Mr. Au Yeung	1	US\$1	16/6/2001
Gainful Plan	Mr. Ko	1	US\$1	16/6/2001
	Mr. Au Yeung	1	US\$1	16/6/2001

In December 2001, the Company became the holding company of Ever Power and Gainful Plan as a result of the Group’s reorganisation in preparation for the listing of the Shares on GEM.

### *Wide Triumph*

Wide Triumph was incorporated in Hong Kong on 1 February 2002 and is principally an administrative arm of the Group responsible for procurement of services for the Group including tenancy contracts, employment contracts and sundry purchases contracts. Payments made through Wide Triumph for the year ended 31 December 2002 mainly comprised staff costs amounting to HK\$3 million and office rental amounting to HK\$0.2 million. Procurement of the above services were for the benefits of members of the Group and were re-charged on a dollar to dollar basis to the corresponding companies within the Group.

***Darsawye***

Darsawye was incorporated in Victoria, Australia on 7 June 2002. It is a property holding company which holds the research and development centre and administration office of the Group situated at 20 Kingsley Close, Rowville, Victoria, Australia.

***Sino Lion and Sino Metro***

Sino Lion and Sino Metro were incorporated in BVI on 23 July 2002 and 23 January 2003 respectively. Sino Lion is the immediate holding company of Beshabar (Macao). Sino Metro has not commenced any business activities since its incorporation.

***Vital BioTech (Shanghai)***

Vital BioTech (Shanghai) was established in the PRC on 3 April 2003 as a wholly foreign owned enterprise. The registered capital of Vital BioTech (Shanghai) is HK\$2 million. The main function of Vital BioTech (Shanghai) is to assist the Group in promoting the PSD and SDDS technologies in the eastern region of the PRC. Vital BioTech (Shanghai) has not commenced any business operation since its incorporation.

**Strategic alliance/technology transfer/business venture**

To improve the existing pharmaceutical products of the Group and to develop new markets, the Group has entered into, or is seeking to enter into, various collaboration arrangements.

*a. Hengrui Project*

On 28 November 2001, Sichuan Pharmaceutical and Vitapharm Research entered into an agreement for the co-operative development of applied technology of drug delivery systems with Jiangsu Hengrui Pharmaceutical Company Limited (江蘇恒瑞醫藥股份有限公司) (“Hengrui”). In the first phase, Hengrui acquired from Sichuan Pharmaceutical a non-exclusive right to use two trial formulations of anti-cancer drugs for a term of three years starting from 28 November 2001. In the second phase, Hengrui agreed to provide up to six existing anti-cancer drugs for the purposes of initial research and development of formulations. Furthermore, Sichuan Pharmaceutical and Hengrui jointly selected up to three formulations for further clinical trials. Hengrui paid a total consideration of RMB6,000,000 to Sichuan Pharmaceutical. The entire project was concluded by December 2002.

Hengrui is a company established in the PRC principally engaged in the research and development, production and sales of pharmaceutical products. It is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

*b. Sine Project*

A confidentiality agreement was signed on 3 September 2001 between Vitapharm Research and Shanghai Sine Pharmaceutical Corp. Ltd. (“Sine”), a PRC company engaged in the research and development, production and sales of biotechnology and pharmaceutical products, regarding a proposed joint development of a room temperature stable probiotic product based on a formulation

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of Sine which is listed as a “Class 1 new drug” in the PRC. Sine is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Initial study on stability of probiotic was completed in October 2002 and its result indicated that the PSD technology is a feasible alternative for probiotic organism stabilisation. Both parties are currently negotiating for further activities such as upgrade of equipment in Sichuan Research before proceeding to the next series of experiments. The Directors expect that the upgrade of the equipment will be finished by the end of third quarter of 2003. Subject to the results of the equipment modification, the next series of work and negotiation may start in the fourth quarter of 2003.

*c. Inner Mongolia Bio Products Factory Project*

A confidentiality agreement was signed on 13 August 2001 between Inner Mongolia Jinyu Group Co. Ltd. (內蒙古金宇集團股份有限公司), a PRC company principally engaged in the research and development, production and sales of biotechnology and pharmaceutical products, and Vitapharm Research regarding a proposed joint development of room temperature stabilised drugs, including vaccines and veterinary drugs, such as enzyme based products and probiotics. Inner Mongolia Jinyu Group Co. Ltd. is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Both parties have been in discussion on further co-operation details.

*d. Chr. Hansen Project*

A confidentiality agreement was signed on 25 January 2001 between Chr. Hansen Pty. Ltd. (“Chr. Hansen”), and Vitapharm Research regarding a proposed co-operation in the development of a room temperature probiotic product. Chr. Hansen is a company within the Chr. Hansen, Inc. group. Chr. Hansen, Inc. is a Danish biotechnology company founded in 1874, and is principally engaged in the development of the natural biological and microbiological products for use in food, pharmaceutical and agricultural industries. Chr. Hansen is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

As at the Latest Practicable Date, Vitapharm Research and Chr. Hansen developed an experimental protocol to replace Chr. Hansen’s existing freeze-dry technology with PSD technology for developing new product and such co-operation is still in progress.

*e. Cancer Drug Delivery Project*

A confidentiality agreement was signed on 5 March 2001 between Vitapharm Research and a drug development company listed in Australia, regarding a proposed joint development of new formulations of anti-cancer drugs. Such company is an independent third party not connected with the Company, the Directors, the chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

As at the Latest Practicable Date, Vitapharm Research has achieved the initial objective of developing an experimental powder formulation for such company’s compounded anti-cancer drug preparation which would instantly dissolve upon addition of water. Further planning and experiments are required to complete this project.

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### *f. Alpharma Project*

A confidentiality agreement was signed on 25 January 2001 between Alpharma Animal Health Pty. Ltd. (“Alpharma Animal”), a company owned by Alpharma Inc. which is principally engaged in the supply of human and animal pharmaceutical products and listed on the New York Stock Exchange, and Vitapharm Research regarding a proposed joint development project on room temperature stable protein formulation for pharmaceutical and veterinary applications. Alpharma Animal is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

As at the Latest Practicable Date, Vitapharm Research has developed an experimental formulation to satisfy the initial objective. Further planning and experiments are required to complete this project.

### *g. Vaccine Project*

A letter of intent was entered into between Sichuan Research and an animal vaccine manufacturer in the PRC on 23 February 2002 to develop a processing method for vaccine manufacturing using the Group’s proprietary PSD technology. The animal vaccine manufacturer confirmed that the experiments performed so far have proven that PSD technology can replace the more expansive freeze drying technology in production of room temperature stable product without significant loss of vaccine activity, thereby reducing the processing cost of such products. Both parties are working towards preparation for product registration requirements.

This animal vaccine manufacturer is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

### *h. SDDS Project*

The Group is currently negotiating with a PRC based pharmaceutical company on commercialisation of SDDS technology.

## **DESCRIPTION OF THE BUSINESS**

The Group is a fully integrated, multinational biopharmaceutical corporation engaged in the research, development, manufacture, sale and distribution of biopharmaceutical and conventional pharmaceutical products. Currently, the Group has business operations in Australia, Hong Kong, Macao and the PRC. The research and development of the Group focuses on downstream value added biotechnology processing systems. Downstream research and development work refers to processing technology, which tends to be industrially oriented and is usually performed in large scale in terms of quantity. The Group has commercialised and refined two platform technologies, namely the “Protein Stabilisation and Delivery (PSD)” and the “Skin Drug Delivery System (SDDS)” technologies. Further details of these two platform technologies are set out in the paragraph headed “Platform technologies” in this section.

With its research and development capabilities, the Group focuses on advanced drug delivery system built on a unique micro bio-encapsulation platform for the delivery of active ingredients for human and veterinary applications via non-injection methods, such as through the mucosal membrane. The Group has also utilised the micro bio-encapsulation platform technologies and

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various other drug delivery systems to enhance or develop its own products, namely Opin and Spray-On Bandage. Details of the Group's products are set out in the paragraph headed "Products" in this section.

Equipped with these technologies, the Group has established alliances with biotechnology and pharmaceutical companies worldwide. The co-operation can be in form of joint venture, licensing, services arrangement and joint development. Further details of the co-operative agreements are set out in the sub-paragraph headed "Strategic alliance/technology transfer/business venture" in this section.

The Group has also developed an extensive distribution network of pharmaceutical products in the PRC. Pending the commercialisation of the Group's products utilising its own developed platform technologies, the Group has, through its distributors, used Osteoform to establish distribution channels for its products to the consumer markets in the PRC. The sale of Osteoform also provides a stable income stream on which the research and development functions of the Group can flourish. Currently, the Group distributes its products to hospitals, clinics and drug stores in the PRC mainly through independent distributors not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

To enhance its sales and marketing efforts, the Group, up to the Latest Practicable Date, has established 28 marketing and liaison offices to promote its products and to provide after-sales services.

Currently, Opin and Osteoform are produced at the Group's production facilities located at Wuhan and Chengdu, the PRC respectively. Detailed description of the production facilities are set out in the paragraph headed "Production facilities" in this section.

Sales generated by pharmaceutical products accounted for approximately 99.3%, 97.7% and 98.3% of the Group's turnover respectively for the three years ended 31 December 2002.

The gross profit percentage for the sales of the Group's products were 40.5%, 49.1% and 69.4% respectively for the three years ended 31 December 2002.

The table below sets out the breakdown of the Group's total turnover for the three years ended 31 December 2002:

	For the year ended 31 December					
	2000		2001		2002	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sale of products						
Osteoform (in capsule form)	32,186	50.2	80,841	65.8	139,963	83.3
Opin (in tablet form)	29,335	45.7	38,442	31.3	24,359	14.5
Spray-on Bandage	1,621	2.5	–	–	–	–
Other products (Note 1)	583	0.9	712	0.6	817	0.5
Consultancy fee (Note 2)	403	0.7	–	–	–	–
Licensing fee (Note 3)	–	–	2,830	2.3	2,830	1.7
	<u>64,128</u>	<u>100</u>	<u>122,825</u>	<u>100</u>	<u>167,969</u>	<u>100</u>
Total turnover	<u>64,128</u>	<u>100</u>	<u>122,825</u>	<u>100</u>	<u>167,969</u>	<u>100</u>

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*Notes:*

- (1) Other products comprise the residual OTC pharmaceutical products of Sichuan Pharmaceutical and Vitapharm Research.
- (2) The Group acted as a consultant to provide advisory and consultancy service to other pharmaceutical companies and in return received a consultancy fee.
- (3) The Group licensed its technology know-how to other pharmaceutical companies and in return received a licensing fee.

The platform technologies developed by the Group are applicable to many biopharmaceutical products. It is expected that the Group's product range will be further expanded upon the commissioning of its GMP compliant production facilities in Wuhan, the PRC and the completion of the construction of its research and development centre in Chengdu, Sichuan Province, the PRC and the further strengthening of its co-operation with other pharmaceutical companies.

### RESEARCH AND DEVELOPMENT

The Directors believe that growth strategies based solely on the discovery and development of new pharmaceutical products are expensive and risky. Accordingly, the Group does not focus its resources on new drug discovery, but specialises in downstream value added processing development.

Based on this strategy, the Group further developed two platform technologies, PSD and SDDS, originally jointly-invented by Mr. Ko and Mr. Au Yeung and solely by Mr. Ko respectively, with applications which offer customer focused solutions to optimise formulation, production and commercialisation of biological and pharmaceutical products. Vitapharm Research was responsible for performing the research and development activities for the Group.

The Directors believe that as living standard continues to improve, average life expectancy in the PRC is expected to improve. This has led to an increase in health consciousness among the general public and the demand for health care services and products is expected to grow significantly. The Directors believe that the platform technologies, together with the Group's established marketing and distribution network in PRC, will make alliance partnership with international pharmaceutical companies possible.

Aiming to achieve a leading position in technology development, the Group participates in various trade exhibitions and seminars of biotechnology industry. In 2001, Vitapharm Research was selected by the state government of Victoria, Australia, as one of the 12 companies to receive financial support from the State government to participate in the exhibition display at Bio 2001 International Biotechnology Convention and Exhibition ("Bio 2001"). Bio 2001 was a biotechnology industry event held in San Diego, US in June 2001. Vitapharm Research was also invited as a visitor to the Bio 2002 International Biotechnology Convention and Exhibition which was held in Toronto in June 2002 where industry practitioners from around the world met to exchange views and explore business opportunities. The Group took advantage of these opportunities to expand its global networking and to fine-tune strategies to commercialise the platform technologies to other companies. During the year ended 31 December 2002, the Group has been working closely with one of the largest animal vaccine manufacturers in the PRC to develop new processing methods for vaccine manufacturing based on the Group's PSD platform technology.

During the three years ended 31 December 2002, the Group spent approximately HK\$216,000, HK\$807,000 and HK\$3,217,000 respectively on research and development, representing approximately 0.4%, 0.9% and 2.7% of the Group's total expenses respectively. The Directors

believe that the substantial increase in the research and development expenses for the year ended 31 December 2002 was attributable to contemplation of a bigger scale of product development, re-engineering of production lines and refinement of existing products by utilising the proceeds from the Placing. The research and development expenses for the year ended 31 December 2002 mainly comprised: a) write-off of HK\$1.8 million for an unsuccessful project “Lovastatin”; b) product development costs, clinical trial expenses, laboratory materials and consumables expended by Sichuan Pharmaceutical amounting to HK\$0.8 million; and c) product development costs, clinical trial expenses, laboratory materials and consumables expended by Sichuan Research amounting to HK\$0.5 million.

### PLATFORM TECHNOLOGIES

Two platform technologies, namely Protein Stabilisation and Delivery (PSD) and Skin Drug Delivery System (SDDS), were commercialised and refined by Vitapharm Research. PSD focuses on biological proteins and SDDS is designed for chemical pharmaceuticals.

#### (a) Protein Stabilisation and Delivery

The PSD technology utilises the micro bio-encapsulation process to achieve room temperature stabilisation and mucosal delivery of biological proteins.

Protein-based pharmaceuticals are rapidly becoming an important class of therapeutic agents and are likely to replace many existing organic chemical based pharmaceuticals in the near future. The field of biotechnology and genetic engineering is rapidly developing, and an increasing number of such protein-based pharmaceuticals will be produced on a large scale by biotechnology processes and will become available commercially for therapeutic use. This poses an urgent challenge to the pharmaceutical industry to develop viable delivery systems for the efficient delivery of these complex therapeutic agents in biologically-active forms. Much work needs to be done on the development of viable delivery systems for nonparenteral administration to make protein-based pharmaceuticals commercially viable and therapeutically useful.

The PSD technology allows protein-based pharmaceuticals to be commercially viable and therapeutically useful.

Traditionally, the following two major problems have made the commercialisation of biological products not viable, such as the use of peptide- and protein-based pharmaceuticals as therapeutic agents.

#### (i) Protein stability

Biological molecules such as peptides and proteins are normally unstable at room temperature. Therefore, they normally are refrigerated between 2-8°C, which, the Directors believe, would make the commercialisation of these biological molecules as pharmaceutical products expensive and difficult for mass-markets (especially in developing countries). For this reason, not many biological molecules can become commercially viable products.

The stability problem also leads to difficulties in the development of solid dose formulations, e.g. tablets. The tablet making process usually requires mechanical wet mixing of active materials with bulking materials, heating and drying. These processes tend to destroy the bioactivities of the peptides and proteins.



### *(ii) Protein drug delivery*

Drugs must be delivered to the target tissue for pharmacological response. The best situation is to directly deliver the drug to the target tissue, but it is not always easily achievable.

Different delivery systems are available.

Oral delivery (ingestion):

It is widely accepted that oral route of delivery of biological active peptides and proteins has low systemic bioavailability and short duration of therapeutic activity. Proteins are easily destroyed in the stomach and digested by protease enzymes in the intestine.

Parenteral delivery (injections):

Parenteral delivery, although offer high systemic bioavailability, is impractical for the therapeutic regime which required daily or even multiple daily administration.

Mucosal delivery (via sublingual, ocular, nasal, pulmonary, rectal and vaginal):

Mucosal delivery routes allow elimination of first-pass hepatic degradation. Drugs can be directly delivered to systemic circulation where interchange of blood stream and lymphatic system and distribution to the target tissues occur. These routes of administration are practical for self-medication.

### *(iii) Protein stabilisation and delivery technology*

The PSD technology is based on a process known as micro bio-encapsulation which takes place within a nitrogen environment or air stream at 30-50°C. The biological material in the liquid formulation is instantaneously immobilised onto the seed particles being fluidised. The process can yield up to 2000kg and 3000kg of free flowing product per batch. The micro bio-encapsulation process avoids the expensive freeze-drying process, resulting in a faster, higher yield and a lower cost production process.

The encapsulated products are biologically stable. This allows the extension of product storage time at room temperature, reducing the need for refrigeration and avoiding short product expiration period.

The encapsulated products can be administered in more convenient dose forms-oral, sublingual, vaginal or nasal presentations instead of parenteral or nebulised. This allows a wide choice of commercially viable delivery systems. Depending on the properties of the medicine, a suitable route can be selected to achieve best efficacy. For example, oral route is chosen for the direct delivering probiotics to the gastrointestinal tract where they act as microecological modulators. The Directors believe that sublingual, vaginal and nasal deliver products via mucosal delivery provide therapeutic responses with reduced side effects or degradation. In general, the process allows preparation of tailor-made formulations according to the properties, the designated routes and therapeutic target and regime of the biological products.

One of the major developments of the Group was the application of this technology to interferon, a natural protein present in human body that has a modulating effect on human immunity and protects the human body from viral infection. With this technology, it is intended that a series

of interferon based products will form a major product pipeline for the Group. Opin is a launched product using the technology to form interferon tablet designed for vaginal delivery for the treatment of chronic erosive cervicitis and was granted an award of “Class 2 New Drug” by the SFDA in 1998 (classified under the pre-1999 regulations). Under development is a nasal interferon spray with an indication for upper respiratory tract viral infections including treatment of flu and cold. Taking advantage of this technology, many new products are under development; for example, sublingual EPO for the treatment of chronic anaemia and oral probiotics for harmonising intestinal microbial ecological environment.

**(b) Skin Drug Delivery System**

The polymer based SDDS technology is invented to deliver drugs to the systemic circulation system through topical application to the intact skin surface. This technology is effective for chemical pharmaceuticals and not designed for protein delivery.

The system is based on sophisticated polymer membrane technology. Drugs are stored as liquid form. When spraying on the skin surface, a flexible polymer film will be formed. The film is water resistant, porous, flexible, durable, and self-disintegrated. Most importantly, the flexible polymer structure of the film serves as a drug depot that continuously releases medication for dermal absorption. In the case of applying to a wounded area, the film serves additionally as a physical barrier to protect the wound from infection by air-borne micro-organisms. Like mucosal delivery, it by-passes the first hepatic degradation. Delivery is direct to the systemic circulation from where drugs are distributed to the target tissue.

The technology relates to a non-aerosol spray-on skin patch composition and methods of using it in improving wound healing, and/or administering a physiologically active ingredient to a patient. This also relates to a spray on skin patch drug delivery system.

As an embodiment of the technology, a typical spray patch skin delivery composition comprises:

- (a) at least one substantially water insoluble film forming agent;
- (b) at least one film plasticiser agent;
- (c) at least one water soluble compound;
- (d) at least one organic solvent; and
- (e) one or more physiologically active ingredient or a pro-drug thereof.

The composition forming a flexible, porous and physiologically compatible skin patch when sprayed onto skin and allowed to dry, and which provides a skin drug delivery system.

The most significant feature of products made from SDDS technology is that it can deliver drug through the polymer membrane. In the case of the Spray-On Bandage, the drug to be delivered is the disinfectants. This function was clearly demonstrated by a study conducted by a consultant microbiologist in Australia who is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. In the experiment, the product was sprayed on to

a piece of paper and allowed to dry. This simulated the product spraying onto a skin surface. The loaded paper was then laid onto a lawn of live bacteria and left alone to grow. At the end of the experiment, a clear inhibition zone was clearly demonstrated around the paper. This indicated the antiseptic had been successfully released into its surround thus prohibiting bacterial growth in that clear neighbourhood region.

This system is highly convenient and user-friendly. There are no tablets or capsules to swallow, or injections given. It also allows the formulation of an environmental friendly non-aerosol spray.

The Spray-On Bandage is a product using this delivery system both as an artificial skin membrane covering a wound and as a vehicle to deliver antiseptic to treat and guard the wound against infection.

### **(c) The application of the two platform technologies**

The Directors believe that the PSD and the polymer based SDDS technologies have high commercial value and potential and they both offer product protection and user-friendly drug delivery system.

The PSD technology is applicable to many biological, synthetic and natural herbal pharmaceutical products. When it is applied to currently known unstable therapeutic biological products, the technology may allow the products to be room temperature stable and acceptable for oral or mucosal delivery instead of by injection. The PSD technology may also increase production yield and reduce production time and cost.

The SDDS technology is applicable to many chemical pharmaceutical products. It offers an easy way to achieve systemic delivery by releasing drugs from an artificial skin membrane to human skin through dermal delivery.

The effectiveness of both technologies has been proven in the commercial products of Opin and Spray-on Bandage and various testings performed on the products such as a stability report on Opin and clinical trial on Opin and the germ killing ability of Spray-on Bandage.

As SDDS and PSD are manufacturing technologies, they have no specific therapeutic claim or efficacy claim. Clinical trials or empirical studies are conducted on the proposed products that use such technology(ies), for example, Opin and Spray-On Bandage. These products' clinical trials or studies have been disclosed in the relevant sections to this document on the specific products e.g. Opin and Spray-On Bandage.

The Directors believe that the platform technologies can achieve the following benefits:

#### *(i) Improved stability*

The PSD technology developed by the Group targets to enhance the stability of the biological products to useful commercial biopharmaceutical products. The Group has been conducting research on bifidus, an unstable probiotics micro-organism, the commercial value of which was limited by its room temperature stability.

*(ii) Improved production yield and lowering production costs*

The PSD technology may also improve production yield, thus production costs can be reduced. For example, since the application of the PSD technology to Opin in 1998, the retail pack unit production costs of Opin had been reduced from RMB21.0 in 1998 to RMB16.3 in 1999.

The Group also conducts research and development work on the yield improvement of live lactobacillus. Traditionally, the harvest of lactobacillus from the fermentation tank is through freeze-drying, which takes about two days. Preliminary data indicated that the Group's processing technology could potentially improve the yield at least 10 folds in a shorter time.

*(iii) Improve efficacy*

The PSD technology can also improve the efficacy of the products. For example, the established procedure to use interferon for viral hepatitis is by injection in term of millions of IU. The first generation oral-sublingual interferon for hepatitis B and C required less than 2000 IU per dose. According to the Journal of Interferon and Cytokine Research, Vol. 19, No. 8 published in August 1999, low dose oral or nasal interferon may achieve similar efficacy when compared with injection-based interferon treatment. In commercial terms, this will lower the treatment cost significantly and expand the application of the anti-viral property of interferon to other mass market applications, such as the prevention and treatment of flu and cold, oral ulcers and cancer.

On-going research and development work has been conducted by the Group to improve Opin. In 2002, the Group has further reduced the production cost of Opin significantly.

*(iv) User friendly drug delivery systems*

The Directors believe that currently, most biological proteins for medical applications are delivered by injection. This limited the commercial viability and therapeutic usefulness of biological products. The Group has been conducting research and development work on mucosal delivery system by using the PSD technology. The Group is in the process of preparing for registration of the nasal interferon in the PRC. Research and development progress is also being made on delivering EPO for chronic anaemia via a similar way.

The Group also extends the application of the SDDS technology to athlete's foot spray for anti-fungal treatment.

## COMMERCIALISATION OF THE PLATFORM TECHNOLOGIES

The Group has commercialised the two platform technologies in the following ways: (i) development and distribution of own branded products; (ii) joint development and distribution arrangement; (iii) establishment of joint venture; and (iv) licensing and services arrangement.

### (i) Development and distribution of own branded products

The Group has used its in-house resources and expertise to develop its own new line of products or products to complement existing products. These products will be distributed through its existing marketing and distribution networks.

In deciding whether a new product is to be developed, the Group conducts a process of new project evaluation. The process includes market research and technical assessment to ensure market viability and technical feasibilities.

The nasal interferon project is an example of this method of commercialisation. The Group is also engaged in the development of sublingual EPO for chronic anaemia.

All products developed for the PRC market are developed in accordance with the regulations of the SFDA in respect of development of new medicine in the PRC.

The product development process can be generally divided into the following stages:

- Concept development;
- Preliminary market survey;
- Preclinical study is conducted to prove the product development principles;
- Application for approval of clinical trials from the SFDA;
- Conducting clinical trials;
- Intensive market research for the preparation of new product launch plan;
- Application for marketing approval from the SFDA; and
- Product launch.

To speed up the process, some stages could be progressed concurrently.

### (ii) Joint development and distribution arrangement

The Group has entered into agreements with overseas pharmaceutical companies which have existing products that can be improved through the application of the Group's technology and distribution networks in the PRC. The Group is using this business model in its current negotiations with Chr. Hansen a company within the group of Chr. Hansen, Inc. in Denmark, and to distribute their probiotic products.

## BUSINESS

In 2002, the Group has commenced a technology co-operation project with a PRC based animal vaccine manufacturer to produce animal vaccines and receptase using the Group's PSD technology. Currently, the Group has completed some preliminary pilot trials and animal testings. Based on the success of this preliminary result, both parties agreed to continue with further testing in preparation for product registration in the PRC.

The Directors consider that this type of joint development and distribution arrangement model is beneficial to the Group because new products that are currently not available in the PRC can be introduced to the PRC, while, at the same time, the platform technologies of the Group can be introduced to the world.

### **(iii) Establishment of joint ventures**

The Group also plans to use the platform technologies as capital assets to form joint ventures with potential business partners. The Group has been discussing in this regard with Sine. Further details of the co-operative agreements are set out in the sub-paragraph headed "Strategic alliance/technology transfer/business venture" in this section.

### **(iv) Licensing and services arrangement**

The Group is also able to license the two platform technologies to independent third parties to use these technologies to manufacture pharmaceutical products, thereby creating a new revenue stream for the Group without incurring the traditional costs involved in the manufacturing of products. During the Track Record Period, the Group has licensed its PSD technology to Hengrui from which the Group received a licence fee amounted to RMB6,000,000.

The Group may also enter into services agreements with independent third parties. Services fees will be charged and the Group will provide its knowhow in the two platform technologies to assist such parties to solve their production problems or product stability problems. The Hengrui Project set out in the sub-paragraph headed "Strategic alliance/technology transfer/business venture", in this section.

As at the Latest Practicable Date, the Group has a total of 30 research and development staff.

**PRODUCTS**

**A. Existing Products**

(i) *Opin*

Opin is a medication for chronic erosive cervicitis with interferon as its active ingredient. As a pharmaceutical agent, interferon has the general properties of anti-viral, anti-inflammatory, promote tissue regeneration, improve immunity and suppress microbial growth. Interferon induces some tissue cells to produce intermediate materials which interfere with viral reproduction. These materials are also known as anti-viral proteins. It is through this process that interferon can cure chronic erosive cervicitis. According to a series of reports published in Practical Gynaecology Magazine, Vol. 14, 1998 (實用婦產科雜誌1998年第14卷專刊), a total of 16 clinical multi-centre studies including a total of 1,815 patients concluded Opin is an effective alternative for the treatment of chronic erosive cervicitis to other traditional treatment procedures.

A summary of the clinical studies on Opin published in Practical Gynaecology Magazine, Vol. 14 in 1998 are shown as below:

<b>Paper Title</b>	<b>Institute performing the study</b>	<b>Number of cases studied</b>	<b>% effective rate</b>	<b>Criteria for effectiveness</b>
50 case studies of using Opin for erosive cervicitis	No. 2 Hospital of Wubei Medical University (湖北醫科大學附屬第二醫院)	50	98	Improvement by clinical observation after 2-3 post treatment examination
342 case studies of using Opin and metronidazole for the treatment of erosive cervicitis	Wunan Province Hengyang City Nuclear Industry No. 415 Hospital (湖南省衡陽市核工業415醫院)	342	77	Improvement by clinical observation
Investigation into the use of Opin in gynaecology practice	Chengdu City Birth Control Technique and Instruction Institute (成都市計劃生育技術指導所)	53	94	Improvement by clinical observation, reduction in discharge, PCR test
190 case studies of using Opin and laser treatment for chronic erosive cervicitis	Shanxi Province Taiyuan City Central Hospital (山西省太原市中心醫院)	190	83	Improvement by clinical observation

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Paper Title	Institute performing the study	Number of cases studied	% effective rate	Criteria for effectiveness
160 case studies of Opin for erosive cervicitis	Zhejiang Province Wuzhou City No. 2 People's Hospital (浙江省湖州市第二人民医院)	160	93	Improvement by clinical observation
30 case studies of using Opin (Interferon) for the treatment of erosive cervicitis	Shanxi Province Xi'an City No. 4 Hospital (陝西省西安市第四醫院)	30	83	Improvement by clinical observation
41 case studies of using Opin for the treatment of erosive cervicitis	Yunnan Province Kunming City Central Hospital (雲南省昆明市中醫醫院)	41	85	Improvement by clinical observation
73 case studies of using Opin (a-interferon) for the treatment of chronic cervicitis	Yunnan Province Kunming City Central Hospital (雲南省昆明市中醫醫院)	73	75	Improvement by clinical observation, reduction in discharge
Effective treatment observation of 50 cases of using Opin for the treatment of cervicitis	Guangdong Province Dongguan City Guancheng Hospital (廣東省東莞市莞城醫院)	50	88	Improvement by clinical observation, reduction in discharge, discomfort of lower limb, back pain
81 case studies of using Opin for the treatment of cervicitis	Guangdong Province Guangzhou City Skin Diseases Prevention Institute (廣東省廣州市皮膚病防治所)	81	88	Improvement by clinical observation
Observation of using Opin for the treatment of chronic cervicitis	Gansu Provincial People's Hospital (甘肅省人民醫院)	65	85	Improvement by clinical observation
116 case studies of using Opin for the treatment of chronic cervicitis	Yunnan Province Kunming City Yan An Hospital (雲南省昆明市延安醫院)	116	93	Improvement by clinical observation



## BUSINESS

Paper Title	Institute performing the study	Number of cases studied	% effective rate	Criteria for effectiveness
Observation of the clinical using Opin in 92 cases	Taiyuan City Xishan Mining Bureau Hospital (太原市西山礦務局醫院)	92	88	Improvement by clinical observation
Analysis of 126 case of using Opin for the treatment of erosive cervicitis	Studies on Skin Diseases (《皮膚病學》)	126	96	Improvement by clinical observation, iodine staining on cervical surface
116 case studies of using a-interferon for the treatment of chronic cervicitis	Jiangxi Province Women & Children Healthcare Institute (江西省婦幼保健院)	116	93	Improvement by clinical observation
230 case studies of using Opin for the treatment of erosive cervicitis	Henan Province Zhengzhou City No. 3 People's Hospital (河南省鄭州市第三人民醫院)	230	98	Improvement by clinical observation

In June 1998, Opin was granted a drug registration certificate and an approval for manufacturing issued by the SFDA entitled the new drug certificate (新藥證書) and new biological product manufacturing permit (新生物製品生產申請批件), and was registered and marketed in the PRC as a “Class 2 biological new drug” (classified under the pre-1999 regulations). By virtue of this registration, it was protected from competition during the period from 2 June 1998 to 1 June 2001 under the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer. A Class 2 classification under the pre-1999 regulations in general afforded a protection period of six years inclusive of a trial production period of two years. However, in the case of Opin, as Opin had already enjoyed a trial production period of approximately three years prior to the registration in 1998, it was granted a protection period of three years. Chronic erosive cervicitis is a very severe form of cervicitis that, to date cannot be treated through the use of antibiotics. Opin has a shelf life of 18 months and has been approved by the SFDA.

In May 2000, the Group, having discovered that Opin can be generally used for the treatment of genital viral infections, applied for a new indication for Opin as a “Class 5 new drug” (classified under the post-1999 regulations) in relation to a project which involves the use of Opin for the treatment of herpes. The Company has received the permit to conduct clinical trial in May 2000. In April 2002, the SFDA received the clinical trial application from the Group.

In March 2003, the SFDA granted the approval of new drug registration and production permit for Opin with new indication. Pursuant to the new regulations in relation to drug registration promulgated in October 2002 and came into effect in December 2002, the old classification of new drug was no longer applicable and Opin was simply approved by SFDA as a new drug with a probationary protection period which shall expire on 30 March 2008.

## BUSINESS

Taking into account other products which contain active ingredients other than interferon and which are for the treatment of erosive cervicitis, Opin has an approximately 5% market share.

Opin was originally developed by Wuhan Weiao, a PRC joint venture acquired by the Group in October 1998. Since the acquisition of a 70% interest in Wuhan Weiao, the Group has assisted Wuhan Weiao in identifying problems in the entire production process of Opin and in relation to the stability of Opin. By applying the PSD technology of the Group to the production process of Opin, the quality of Opin was improved and the production cost was reduced significantly.

For the three years ended 31 December 2002, the sales of Opin were approximately HK\$29.3 million, HK\$38.4 million and HK\$24.4 million respectively, representing 46%, 32% and 14% of the Group's total turnover in the respective years. The Directors believe that such decrease was mainly attributable to an increasing number of hospitals in the PRC requiring the pharmaceutical manufacturers to be GMP compliant. Since the existing production line of Opin in Wuhan, the PRC is not GMP compliant and the new GMP compliant plant is still under construction, the Group's position in securing sales orders of Opin from those hospital have been weakened.

### (ii) *Osteoform calcium amino acid chelate capsule*

Osteoform is a health supplement of calcium, trace mineral, vitamin D3 and vitamin C. It contains calcium, several trace minerals that are necessary for bone formation, in addition to vitamin D3 and vitamin C. Its ingredients include calcium amino acid chelate, copper amino acid chelate, calcium ascorbate, manganese amino acid chelate, calcium hydrogen phosphate, vanadium amino acid chelate, magnesium amino acid chelate, silicon amino acid chelate, zinc amino acid chelate, boron amino acid chelate and vitamin D3. Osteoform has a shelf life of three years.

The Group holds an exclusive right to process and distribute this technologically more advanced calcium supplement product in the Asian market for a term of 20 years up to 2022. Based on the Report of the Chinese Pharmaceutical Retail Market published by SFDA in November 2002, Osteoform accounted for approximately 14.0% of the market share of rare elements, minerals, and other nutrients in value terms in the PRC.

The formulation of Osteoform was developed by Pharmco, which is the original owner of the formulation and the trademark of Osteoform, and the sole supplier of the Group of the Osteoform powder. The Directors believe that the classification of Osteoform varies in different jurisdictions. In the PRC, Osteoform has been registered by Pharmco with the SFDA as a drug for the prevention and treatment of diseases caused by calcium deficiency. Osteoform has been approved by and registered with the SFDA as an OTC drug in the PRC for five years on 23 May 1998 and which was subsequently renewed for another five years on 23 May 2003.

The Russian Health Department also granted approval and drug registration of Osteoform in February 2002.

At present, the production and packaging processes of Osteoform are conducted in the Group's GMP compliant plant in Chengdu, Sichuan Province, the PRC and the distribution of Osteoform in the PRC is made through independent distributors. The Group is responsible for the purchases of Osteoform material from Pharmco, the promotion of Osteoform within the territories permitted in the Marketing and Distribution Agreement and the provision of after-sale services.

## BUSINESS

From the perspective of the Group's strategic development, Osteoform serves as the foundation for establishing and developing the Group's OTC product distribution network in the PRC. It also provides a stable income stream on which the research and development functions of the Group can further develop.

This capsule-based drug has the following advantages over traditional calcium supplements products:

- it has a higher rate of absorption by human bodies compared with traditional calcium supplements. As such, it can serve as a more effective treatment of calcium deficiency with fewer side effects;
- it has price advantages over its competitors;
- SFDA approved Osteoform as an OTC drug with indications for osteoporosis and calcium deficiency; and
- the Group obtained the registration document from Pharmco which applied for and obtained the drug registration directly from SFDA. New drug class or category does not apply to Osteoform because it is not a new drug.

For the three years ended 31 December 2002, the sales of Osteoform were approximately HK\$32.2 million, HK\$80.8 million and HK\$140.0 million respectively, representing 50.2%, 65.8% and 83.3% of the Group's total turnover in the respective years. The Directors believe that such increase was mainly attributable to the diligent marketing effort, effective advertising campaign and increase of retail outlets for the products from around 30,000 for the year ended 31 December 2000 to around 40,000 for the year ended 31 December 2002.

### *(iii) Spray-On Bandage*

The Spray-On Bandage was developed from the Group's unique SDDS technology. This product is in liquid spray form. When the spray is applied to a wound, it forms a temporary skin membrane that contains antiseptics. The membrane is clear and water-resistant, and can last for up to 24 hours, depending upon the location of the application. The Spray-On Bandage is available in a handy and portable 15g non-pressurised metal can.

The most significant feature of products made from the SDDS technology is that it can deliver drug through the polymer membrane. In the case of the Spray-On Bandage, the drug to be delivered is the antiseptic. This function was clearly demonstrated by a study conducted by a microbiologist consultant in Australia on 30 September 1998 who is an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. In the experiment, the product was sprayed on to a piece of paper and allowed to dry. This simulated the product sprayed onto a skin surface. The loaded paper was then laid onto a lawn of live bacteria and left alone to grow. At the end of the experiment, a clear inhibition zone was clearly demonstrated around the paper. This indicated the antiseptic had been successfully released through the polymer membrane into its surrounding thus prohibiting bacterial growth in that clear neighbourhood region. Therefore, this demonstrated that the SDDS technology can deliver drugs.

The Group has attempted to promote this product to various overseas markets. The Spray-On Bandage was registered with the Australia Therapeutic Goods Administration in April 1999, which marked the official acceptance by the health authority as a commercial product. One trial production batch of Spray-on Bandage was manufactured in Australia in February 2000 for market trial purposes. 5000 units of trial products were introduced to each of Thailand, Australia and Taiwan in January 2000, March 2000 and June 2000 respectively through a different local agent in each market. After reviewing the marketing results, the Directors concluded that more marketing efforts were required for promoting this product in the above markets, and the Directors did not consider it worthwhile to spend significant effort on promoting this product in those markets. The Group then adopted an alternative strategy of licensing the SDDS technology together with this product to a third party. Up to the Latest Practicable Date, the Group has identified a suitable business partner in Qingdao, Shandong Province, the PRC for the launch of this product in the PRC and negotiation is still on-going. The Group lodged an application in November 2001 for registration of this product with the SFDA. Such application was approved by Sichuan Health Bureau in February 2002. As such, no sales of this product was recorded for the two years ended 31 December 2002.

**B. Products under development**

(i) *Interferon nasal spray*

The Group has developed a new interferon nasal spray with an indication for upper respiratory tract viral infections including treatment of flu and cold. Once the SFDA approval has been obtained, the nasal spray products shall be introduced to the market.

A market survey commissioned by the Group in 1998 revealed that the potential market for the upper respiratory tract infection treatment market in the PRC is approximately RMB5.17 billion.

The Group has a 100% interest in the Interferon Nasal Spray Project. The active ingredient, interferon, is freely available on the open market. Currently, the Group is re-adjusting the clinical trial plan and protocol to comply with the latest SFDA drug registration regulations which came into effect in December 2002.

(ii) *Receptase*

Receptase uses a new method for the treatment of diarrhea caused by E.coli without the use of antibiotics. The abusive use of antibiotics to treat animals' diseases has been well known to adversely affect public health through conditioning the bacteria to adapt resistance to antibiotics.

Receptase is an oral medication for farm animals designed to prevent diarrhea. The research and development team applies the PDS technology to develop this enzyme-based drug. It has the effect of preventing the spread of E.coli bacteria by stopping the bacteria from attaching themselves onto the internal lining of the intestine. Under certain conditions, certain strains of E.coli can be a disease-causing micro-organism that is responsible for diarrhea, and potentially, if left untreated, will eventually lead to death. In addition, Receptase is a new generation of "green farming" biological product that has broad spectrum of activity, no harmful residuals in meat and will not cause drug resistance like antibiotic.

## BUSINESS

Through the experimental use of Receptase on pigs, the Department of Agriculture and Rural Affairs in Victoria, Australia, has shown that pigs using Receptase were nine times less likely to develop diarrhea than pigs not using Receptase. Other tests performed using Receptase have shown that the drug leads to significant weight gain, and generally healthier pigs, as they are not using antibiotics.

In 2002, the Group conducted an extensive field studies in co-operation with a veterinary drug company in the PRC at an independent commercial farm located in Beijing, the PRC. Results of the studies demonstrated that Receptase-treated pigs have significantly less diarrhea incidences and better weight gain as compared to antibiotic-treated control group.

Currently, the Group is in negotiation with the veterinary drug company and a multinational company to commercialise Receptase in the PRC and other countries respectively.

The Group has a 100% interest in this Receptase project. The active ingredient, Bromelain, is freely available in the open market.

### *(iii) Probiotics*

The concept of probiotics is to allow an individual to ingest live beneficial bacteria so that a stable intestinal microbial ecological environment can be maintained. The Group uses the PSD technology to derive a production procedure that will have the potential to improve yield by many folds against the current traditional expensive freeze-drying process.

The Group is negotiating with both Sine, a PRC company and Chr. Hansen, a company within a Danish group, in finalising the product strategy with the objective of launching a series of products within the next two years.

The project is at the conceptual stage. The Group is testing the application of the PSD technology on bacteria samples supplied from Sine and Chr. Hansen. The final commercialisation format is still to be decided. Under the current plans, the Group uses its PSD technology to apply on the bacterial culture provided by Sine and Chr. Hansen to develop a new series of products.

### *(iv) EPO*

EPO is a naturally occurring biological protein produced by the kidney acting as a biological signal for the body to produce red blood cells.

The proposed product is a room temperature stable sublingual EPO tablet aiming at combating the wide spread chronic marginal anaemia among the Asian population. The Group has carried out preliminary studies on the stability of EPO and its effects on animals throughout 2001. Similar studies on a larger scale has been carried out in 2002 and an animal kidney failure and anaemic model has been established. The Group is preparing the pre-clinical trial documentation in accordance with the SFDA guidelines. Target launch date in the PRC for EPO tablet is expected to be in 2006.

The Group has a 100% interest in the EPO Project. The active ingredient, EPO alpha, is freely available in the open market.

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### (v) *Ferrous orotate*

The research and development work of this product aims at producing a chelated iron supplement with the indication for nutritional anaemia. This product is designed for oral application. Ferrous orotate is believed to be biologically more compatible to the body than most mineral based iron supplements. This will be a companion product to the other proposed sublingual EPO tablet product. The Group has carried out formulation work on ferrous orotate with product protocol proposed throughout 2001. In 2002, the Group has conducted the trial production and filed patent application of ferrous orotate in the PRC.

The Group has a 100% interest in this project. The raw material for manufacturing of ferrous orotate, is freely available in the open market.

### (vi) *Project Depile*

The product involved in this project is a herb based oral capsule with the indication to relieve the symptoms of haemorrhoid (commonly known as piles). As an oral product, it has a distinct advantage over traditional creams, ointments or suppositories.

This is a joint development project between Sichuan Pharmaceutical and Chengdu Chinese Medical University Affiliated Hospital (成都中醫藥大學附屬醫院), whereby Sichuan Pharmaceutical has the first right to commercialise the project on successful completion of clinical trial. Sichuan Pharmaceutical bears the cost of the research and development and clinical trial. In return, Sichuan Pharmaceutical enjoys a 100% financial interest on the commercialisation of the final product. Since Sichuan Pharmaceutical is beneficially owned as to 85% by Yugofoil and 15% by Sichuan Kangao. The Group has 85% interest in this project. Chengdu Chinese Medical University Affiliated Hospital will retain its interest in the intellectual property rights of the product but will not be entitled to any financial return as long as Sichuan Pharmaceutical is marketing the product.

Applications for drug registration and production permit have been submitted to the SFDA and the relevant approvals are expected to be granted by the fourth quarter of 2003. The Group plans to launch the product under a proposed commercial name “Depile” by the end of 2003. Currently, the Group has received keen interest about Depile from Australia, the US and Russia and the Directors expect that this product will provide a new revenue stream to the Group in the near future.

### (vii) *Fenofibrate chewable tablet*

Fenofibrate is a fibric acid derivative drug for the regulation of blood lipid. It is currently classified as Class 4 new drug by the SFDA. Applications for Class 4 new drug registration and production permit have been submitted to the SFDA and the relevant approvals are expected to be granted by the third quarter of 2003. The Group plans to install a new production line for this product in the Group’s Chengdu plant and launch this product around the third quarter of 2003.

### (viii) *Aceclofenac*

Aceclofenac belongs to the phenylacetate class of drug and is an acetate derivative of sodium diclofenac. It is a product to relieve pain and fever caused by different kinds of inflammation and infections. The Directors believe that this new product type has lesser side effect to the human digestive system as compared to conventional pain killers. Applications for Class 2 new drug

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registration and production permit have been filed to the SFDA and the relevant approvals are expected to be granted by the third quarter of 2003. The Group plans to install a new production line for this product in the Group's Chengdu plant and launch this product around the fourth quarter of 2003.

### (ix) *Osteoform pediatric formulation chewable tablet*

This is a complementary product of the Group's Calcium Amino Acid Chelate Osteoform Capsule. This product addresses parents' concern about the needs of calcium for their children at growing age. The Group holds a current health supplement product importing licence for this product granted by the SFDA and plans to produce this product in the Group's Chengdu plant and launch this product around the fourth quarter of 2003.

As disclosed above, the estimated timing for the approval of relevant applications of the products under development may have deviated from those stated in the Prospectus. The Directors confirmed that such deviation was mainly due to the launching of a series of activities by SFDA during the second half of 2002 which resulted in the promulgation of the Administration Measures on the Registry of Pharmaceutical Products (藥品註冊管理辦法) on 1 December 2002, which replaced the old Law of the PRC on the Administration of Drugs (中華人民共和國藥品管理法) and other related laws and regulations.

### **Product liability**

As there is no legal requirement and the Directors believe that it is not the industry's practice, to maintain product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC, the Group has not taken out and does not maintain any product liability insurance. Up to the Latest Practicable Date, the Group had not received any material claim from third parties in relation to the use of the biopharmaceutical products of the Group.

### **RECOGNITION AND AWARDS**

Over the years, both the Group and its products have received awards, certifications and recognition for its quality and reputation from governmental authorities. The awards, certifications and recognition granted to the Group and its products include:

<b>Awards/Certifications/ Recognition</b>	<b>Product/ company receiving award</b>	<b>Date of grant</b>	<b>Award granting/ issuing organisation</b>
Technology certificate (科學技術進步獎勵證書)	Opin	December 1999	The Peoples's Government of Hubei Province (湖北省人民政府)
Finalist of the 2000 HSBC Business Award	Vitapharm Research	2000	Hong Kong Australian Business Association

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Awards/Certifications/ Recognition	Product/ company receiving award	Date of grant	Award granting/ issuing organisation
Finalist of the 2001 Victorian Business Award	Vitapharm Research	2001	Hong Kong Australian Business Association & HSBC
Finalist of the 2002 Victorian Business Award	Vitapharm Research	2002	Hong Kong Australian Business Association & HSBC
Top ten business enterprises (十強企業)	Wuhan Weiao	February 2000	Information Center of the Statistical Bureau of Hubei Province (湖北省統計局信息中心)
Star privately owned technology enterprises (明星民營科技企業)	Wuhan Weiao	January 2001	The Science and Technology Committee of Wuchang District (武昌區科學技術委員會)
Certificate of New High Technology Enterprise (高新技術企業證書)	Wuhan Weiao	February 2000 June 2001 March 2003	The People's Government of Wuhan City (武漢市人民政府)
Recognition Certificate of New High Technology Enterprise (高新技術企業認定證書)	Sichuan Pharmaceutical	July 2002	Science and Technology Bureau of Chengdu City (成都市科學技術局)
World Class Research and Development Based Biotechnology Company Investing in China	Vitapharm Research	September 2002	Australian Chamber of Commerce in Hong Kong
Top 50 industrial enterprises in Chengdu (成都工業企業五十強)	Sichuan Pharmaceutical	April 2003	The People's Government of Chengdu City (成都市人民政府)
Key advantageous enterprises (重點優勢企業)	Sichuan Pharmaceutical	April 2003	The People's Government of Chengdu City (成都市人民政府)

The Directors believe that the above awards and certifications have enhanced the public recognition and competitiveness of the Group. As such, the Group's total turnover increased from approximately HK\$64.1 million for the year ended 31 December 2000 to approximately HK\$168.0 million for the year ended 31 December 2002, representing an increase of 162%.



**SALES AND MARKETING**

Before 2000, the Group distributed Osteoform in the PRC through one distribution agent in Shenzhen, the PRC. Since 2000, the Group has been distributing Osteoform in the PRC through two distribution agents which are located in Shenzhen and Shanghai. Currently, the Group distributes Osteoform in the PRC through around 700 distributors located in different regions. All of these distributors are independent third parties not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

Before November 2000, the Group distributed Opin in many regions of the PRC through one sole distribution agent, Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) an independent third party, which is not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Since November 2000, the Group has been distributing Opin in the PRC to hospitals, clinics and drug stores through its own sales and marketing team and around 80 independent distributors not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) remains one of the distribution agents of the Group until November 2001.

Whilst the Group has established its own sales channels, the engagement of distribution agents is still an important means of distributing the Group’s products. To enhance the sales and marketing efforts, the Group, since November 2000, has also established new marketing and liaison offices to promote the Group’s products and to provide after-sales services. The Directors consider that the establishment of additional offices in PRC cities will attract more distributors which will, in turn, expand the distribution network for the Group’s products. As at the Latest Practicable Date, the number of marketing and liaison offices was 28. The following map shows the cities where marketing and liaison offices of the Group have been established.



**Marketing and Liaison Offices**

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The Group also employs sales staff for specific functions, such as conducting seminars, point of sale promotion and customer survey. As at the Latest Practicable Date, the Group employed 843 staff in its sales and marketing team. To increase the penetration rate of its products, the Group has employed various measures, in particular, advertisements, publications and promotional sales. These included prime time television commercials, public transport exterior posters and product gifts. Television commercials were placed with CCTV and local television stations of regional cities and provinces in central and western China, such as Shanxi, Chongqing, Sichuan Province, Hubei, Yunnan and Guizhou. In addition, the Group has sponsored the 9th Sichuan Provincial Sports Game 2002 with a view to promoting and enhancing the image of the Group as well as its products.

During the three years ended 31 December 2002, the Group's largest customer accounted for approximately 45%, 35% and 52% respectively of the Group's total turnover. The Group's five largest customers accounted for approximately 86%, 80% and 96% respectively of the aggregate turnover. The Group's major customers are principally distributors, hospitals, clinics and drug stores. None of the Directors and Shareholders owning more than five per cent. of the issued share capital of the Company or any of their respective associates has any interest in any of these five largest customers of the Group.

The Directors consider that the establishment of an extensive and efficient distribution network is crucial to the successful commercialisation of a pharmaceutical product and for maintaining the revenue generating capability of a pharmaceutical company. As one of the products of the Group is a prescription drug, the Group's initial marketing focus is on hospitals and medical practitioners in the PRC. The Group's strategy is to identify and appoint suitable distributors and marketing agents to undertake the marketing functions and distribution activities within the PRC. The Group will continue to co-ordinate closely with its network of distributors and marketing agents in organising seminars and collating reports on the therapeutical effects and healing process of its products.

In respect of the after-sales services, the marketing and sales team of the Group pays regular visits to its customers such as distributors, hospitals, clinics and drug stores to obtain feedbacks and follow up sales orders from them.

Geographical breakdown of the Group's total turnover for the three years ended 31 December 2002 are as follows:

	For the year ended 31 December					
	2000		2001		2002	
	Amount (HK\$'000)	Percentage of the Group's total turnover	Amount (HK\$'000)	Percentage of the Group's total turnover	Amount (HK\$'000)	Percentage of the Group's total turnover
PRC	63,602	99.2%	122,548	99.8%	167,188	99.5%
HK	312	0.5%	168	0.1%	547	0.3%
Australia, Thailand, Taiwan and Russia	214	0.3%	109	0.1%	234	0.2%
	<u>64,128</u>	<u>100%</u>	<u>122,825</u>	<u>100%</u>	<u>167,969</u>	<u>100%</u>

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### Payment terms

Payments for the Group's products are primarily settled in cash with open account ranging from 30 to 150 days, depending on the credit-worthiness of the customers. In order to assess the credit-worthiness of the Group's customers, the Group will take into account the length of business relationship, previous transaction records as well as reputation of each customer. Up to the Latest Practicable Date, the Group was not aware of any customers who had financial difficulty and resulted in bad debts. The Group has on average a relationship of one to four years with its customers. The credit period, in general, offered to customers ranges from 90 to 120 days.

For the three years ended 31 December 2002, the debtors' turnover days of the Group were 188 days, 104 days and 92 days respectively. The Directors believe that the decrease of the debtors' turnover days was mainly attributable to the adoption of more stringent measures on credit control and collection. The measures on credit control and collection included (i) reviewing debtor's balance by the management of the Group on a regular basis and immediate notification to the management of the Group by the accounting department for any significant late settlements; (ii) frequent visits by marketing people to those late settling debtors to reveal the actual operating situation; and (iii) frequent telephone tracing and follow up by the accounting department for late debts.

The Directors confirmed that the Group does not have a general provision policy on trade debtors based on ageing analysis save for Sichuan Pharmaceutical, which adopts a general provision policy of 0.5% on trade debtors. The Directors also confirmed that the policy adopted by Sichuan Pharmaceutical is a practice especially noted by the local tax bureau in Sichuan Province even though a general provision on trade debtors is not a common practice to be adopted by the subsidiaries of the Group established in the PRC. However, the management reviews the long outstanding debtors and their recoverability on a regular basis and provision is made on specific debtors with potential recoverability problem, as and when necessary. The provision for trade debtors for each of the three years ended 31 December 2002 amounted to approximately HK\$221,000, HK\$73,000 and HK\$208,000 respectively.

### SOURCING

The principal raw materials used by the Group include calcium amino acid chelate compounded powder and interferon. These two raw materials are mainly imported from the US and sourced from traders and manufacturers located in the PRC respectively.

The Group's raw materials are supplied by around 100 suppliers and none of these raw materials are commodities in scarcity or are subject to price control. Interferon is the most important raw materials for the manufacturing of Opin. As at the Latest Practicable Date, the Group had entered into a non-exclusive purchase agreement with each of three local companies manufacturing interferon. In the PRC, there are at least around 30 suppliers of interferon while there are many more known international producers capable of supplying interferon to the Group.

As at the Latest Practicable Date, the Group had around 100 suppliers of raw materials. During the three years ended 31 December 2002, the largest supplier, accounted for approximately 43%, 43% and 55% respectively of the Group's total purchase. The Group's five largest suppliers accounted for approximately 86%, 80% and 76% respectively of the Group's aggregate purchases for the three years ended 31 December 2002. On 31 May 2002, Beshabar (Macao), a wholly owned subsidiary of the Company, and Pharmco entered into the New Marketing and Distribution

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Agreement for a term of 20 years from 31 May 2002 to 30 May 2022. Pursuant to the New Marketing and Distribution Agreement, Beshabar (Macao) agreed to act as an exclusive distributor of the Osteoform powder of Pharmco and to purchase the following minimum annual quantity of Osteoform powder from Pharmco exclusively:

<b>Calendar Year</b>	<b>Quantity</b>
2002	164,102 kg
2003	194,872 kg
2004	225,641 kg
2005	256,410 kg
2006 and each calendar year thereafter for the duration of the term	287,180 kg

If Beshabar (Macao) fails to purchase the minimum annual quantity of Osteoform powder from Pharmco as shown above, Pharmco may terminate the New Marketing and Distribution Agreement by giving written notice to Beshabar (Macao) within 30 days following the end of the relevant calendar year.

Pursuant to the New Marketing and Distribution Agreement, Beshabar (Macao) was also granted the right to package, label, market and distribute Osteoform powder in the PRC and other markets consisting of Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macao, Malaysia, New Zealand, North Korea, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. The territories covered may be amended from time to time by Pharmco at its sole discretion. Beshabar (Macao) may appoint a third party to package, label, market or distribute Osteoform powder so long as the third party responsible for the packaging of Osteoform powder maintains continuous compliance with GMP standards. Up to the Latest Practicable Date, Pharmco has not reduced the number of territories where the Group could market and distribute Osteoform and the Group has met all the relevant requirements under the New Marketing and Distribution Agreement.

The beneficial owners of the entire issued share capital of Pharmco, Ms. Betty Wei Bai and Mr. Tze-Rou Kuo, are the holders of 49% interest in Maxsun and accordingly Pharmco is a connected person of the Company under the Listing Rules. The purchases of Osteoform powder from Pharmco by the Group constitute connected transactions under Chapter 14 of the Listing Rules. Further particulars about the connected transactions are set out in the paragraph headed “Connected transactions” in this section. Save for Pharmco, none of the Directors and Shareholders owning more than 5% of the issued share capital of the Company or any of their respective associates has any interest in any of the five largest suppliers of the Group.

Save and except for the New Marketing and Distribution Agreement, the Group has not entered into any other exclusive purchase agreement with any of its suppliers. The Directors consider that the Group’s relationship with its suppliers is good and the Group has not experienced any major difficulty in obtaining adequate supply of raw materials to meet its production requirements in the past.

The Group’s purchases are mainly made in RMB and USD. For the year ended 31 December 2002, approximately 65% and 35% of the Group’s total purchases were settled in US Dollars and RMB respectively. In light of the stable conversion rate of RMB against USD in the last five years, the Directors consider that it is not justifiable for the Group to adopt any currency hedging policy for the USD, taking into account the high level of costs that may be incurred therein. In respect of

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the total assets of the Group, most of the Group's assets are denominated in RMB and the remaining are mainly denominated in HK\$, USD and AUD. Currently, the Group's assets, which are denominated in AUD, are less than 3% of the Group's total assets whereas the Group's liabilities, which are denominated in AUD, are less than 0.5% of the Group's total liabilities. The Directors consider that the Group is not exposed to currency risk of AUD to the level which requires the Group to adopt any immediate currency hedging policy. Nevertheless, the Directors may consider taking measures in lowering the Group's currency risk if the foregoing currencies experience any material fluctuation in the future. During the three years ended 31 December 2002, the Group did not engage in any foreign currency forward exchange contracts for investments or speculative purposes. As such, no profit/loss arising from those contracts was recorded in the three years ended 31 December 2002.

Payments to suppliers are primarily settled either in cash with open account basis with credit term up to 120 days or by letters of credit. For the three years ended 31 December 2002, the creditor's turnover days of the Group were 172 days, 85 days and 49 days respectively. The Directors believe that the decrease in creditor's turnover days was mainly attributable to the gradual change of settlement method for the purchases from the Group's major supplier using trust receipt loans facilities granted by banks. Under the current arrangement, the bank will inform the Group to either settle the invoice in full or draw down a trust receipt loan for a maximum term of three months upon arrival of cargoes to the port of discharge. The Directors expect that the trust receipt loan arrangement will continue to be adopted by the Group in the future.

### **Sub-contracting and agency**

During the three years ended 31 December 2002, the Group has sub-contracted the packaging process of Osteoform to Bright Future, an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates and paid sub-contracting fee of HK\$4.4 million, HK\$9.1 million and HK\$3.3 million respectively, which accounted for approximately 11.6%, 14.9% and 6.5% of the total cost of sales for each of the respective years. To better control the cost of sales and synchronise with the marketing activity, the Group has ceased to sub-contract the packaging process of Osteoform and conducted the packaging process at the Group's production plant in Chengdu, Sichuan Province, the PRC since September 2002.

In November 2000, the Group entered into a non-exclusive distribution agreement with each of Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) and Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) for the distribution of Osteoform in the PRC, pursuant to which the two distributors can charge a distribution fee of 3% and 1% of the invoice value, respectively, on the customers, which are additional to the sales prices paid by the customers. The two distributors are responsible for collecting payments from customers. Pursuant to the distribution agreements, the two distributors are required to settle the trade debts by letters of credit within seven days after the delivery of goods. All goods are delivered to the ultimate customers by Bright Future upon receiving confirmations from the distributors. No stocks were held by Bright Future or the distributors as at 31 December 2002.

## **RESEARCH AND DEVELOPMENT FACILITIES**

Set out below are detailed description of each of the research and development facilities:

### **(a) Research and development centre in Victoria, Australia**

The research and development work is mainly undertaken by the research and development centre situated in Rowville, Victoria, Australia. There are research and development staff, intermediate and senior technicians. There were one researcher with a doctorate degree and three researchers with bachelor's degrees working in the centre as at the Latest Practicable Date.

Prior to March 2003, the research and development work had been carried out in the Group's research and development centre situated in a suburban area which is approximately 50 km east of the city of Melbourne, Victoria, Australia. The property had a gross floor area of approximately 290 sq.m.. The facility had all the necessary equipment for carrying out the research and development work of the Group.

In July 2002, the Group acquired a plot of land together with a building in Rowville, Victoria, Australia with a site area of approximately 1,309 sq.m. and the transaction was completed in October 2002. Such premises is being upgraded with reference to GLP/GMP standard in phases and is being used as the Group's research and development centre and administration office. The Group has appointed a pharmaceutical engineering specialist to design the infrastructure of the new research and development centre. Blueprint of the new research and development centre has been submitted to the local government for approval and the Directors expected that such approval will be granted in mid 2003. The estimated budget for the first phase of the construction plan and equipment installation is around AUD700,000 (equivalent to HK\$2.8 million) and AUD200,000 (equivalent to HK\$0.8 million) respectively. This new research and development centre will comprise a laboratory for chemical and biological testing, pilot scale process room and isolated laboratories for handling biohazard, infections or toxic materials. These allow the Group to develop and produce a wide range of biopharmaceutical and conventional pharmaceutical products for clinical trial. As at the Latest Practicable Date, an interim temporary facility has been set up on site to maintain current level of administrative and research and development activities. The Directors expect that phase I of the new research and development centre will commence full operation in September 2003.

The property was acquired from an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates at a consideration of AUD925,000 (equivalent to approximately HK\$3.7 million).

### **(b) Proposed research and development centre in Chengdu, Sichuan Province, the PRC**

Currently, another new research and development centre owned by Sichuan Research is under construction in Chengdu, Sichuan Province, the PRC. As at the Latest Practicable Date, the bare structure and portion of the partitioning wall of the research and development centre have been completed and the foundation works of route and path were finished. This new research and development centre in Sichuan is designed to be a GLP compliant research and development centre.

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This research and development centre is located at Wen Jiang County which is approximately 25 km west of Chengdu, Sichuan Province, the PRC. Phase I of the project is expected to be completed by the end of June 2003. Operation is expected to commence in 2004.

Under the current plan of the Group, the main functions of the respective research and development centres of the Group in Victoria, Australia and Sichuan Province, the PRC, will be different and will not replace each other. The research and development centre in Victoria, Australia is for the development of product concepts for the Group, exploration of new applications for the Group's current proprietary platform technologies, introduction of new third party products for the sales and marketing team in the PRC and establishing international business connections for technology export. The research and development centre in Sichuan Province, the PRC will be responsible for later stage of product development, product registration and production in the PRC. These works involve monitoring of clinical trials and pilot production in the PRC. Moreover, research and development centre in Sichuan Province will play a supporting role for various technology transfer projects in the PRC.

### PRODUCTION FACILITIES

The two pharmaceutical products, Opin and Osteoform, are produced by the Group's production facilities located at Wuhan and Chengdu, Sichuan Province, the PRC respectively. Set out below are detailed description of each of the production facilities of the Group:

#### (a) Production facilities situated in Wuhan, the PRC

The Wuhan production plant is leased by the Group and is situated in the city of Wuhan, the PRC. It occupies a total gross area of approximately 2,000 sq.m. which comprises production facilities and ancillary offices. The lease for the premises is for a term of six years commencing from 1 January 2001 and expiring on 31 December 2006 at a monthly rental of approximately RMB20,000 (equivalent to approximately HK\$18,868) exclusive of management fee and utility charges. The production plant currently has one production line with an annual production capacity of 20 million Opin tablets. The Wuhan production plant is not in full compliance with the GMP standards which are required to be met by 30 June 2004. In light of that, the Group is developing a new GMP compliant production plant in the development zone of Wuhan University in the PRC. The factory occupies a site area of about 34,844 sq.m.. As at the Latest Practicable Date, the development permit and construction permit were granted, the foundation work of the plant has been completed and the superstructure work was in progress. The Directors expect that this production plant will commence operation in the third quarter of 2003.

#### (b) Production facilities situated in Chengdu, Sichuan Province, the PRC

The Chengdu production plant is located at Wen Jiang County, which is approximately 25 km west of Chengdu, Sichuan Province, the PRC. The property has a gross floor area of approximately 8,100 sq.m. and is designed for a workforce of more than 200. This production plant is capable of producing 4 dosage form i.e. capsules, tablets, granules and oral liquids. This production plant obtained GMP certification in December 2001 and commenced production in the first quarter of 2002. Currently, the Chengdu production plant is principally engaged in the production of Osteoform and has an annual production capacity of around 300 million tablets/capsules and around 10 million liquid bottles.

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The Group has developed a manufacturing plan to ensure that it maintains a systematic control over its level of inventory. The Group's production planning team is responsible for implementing such plan, preparing and reviewing the Group's production schedules. The production planning team is required to collect information on sales orders from the Group's sales department, co-ordinate with the corresponding production departments and review stock levels on a regular basis and monitor the progress of productions.

The Group conducts regular stock taking with the objective of ensuring the accuracy of its inventory level. Investigation will be taken immediately should the Group discover any material discrepancy in its inventory level. During the three years ended 31 December 2002, the Group did not record any material discrepancy in its inventory level. Furthermore, if the Group discover any defect in the quality of stock, the Group will take immediate action to write off those defective stocks. Currently, inventories of the Group are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The Group does not adopt a general provision policy for inventories which is based on ageing or any other parameters.

For the three years ended 31 December 2002, the inventory turnover days of the Group were 24 days, 22 days and 71 days respectively. The Directors believe that the increase in the inventory turnover days for the year ended 31 December 2002 was mainly attributed to the commencement of full scale production at its new GMP compliant plant in Sichuan Province, the PRC and the increased inventory level to satisfy anticipated sales of the Group's products. In line with the Group's expansion plan, the Group commenced production of Osteoform, which was originally subcontracted to an independent third party, at its GMP compliant plant in Sichuan Province, the PRC in early 2002 and adopted a more aggressive marketing and promotion strategy. Hence, the Group increased its production scale and raised the inventory level to capture the anticipated growing demand of the Group's products resulting from its efforts in the marketing and promotion of such products in that year.

## ENVIRONMENTAL PROTECTION MEASURES

To comply with the relevant environmental protection laws and regulations of the PRC, the Group has established and implemented various environmental protection measures. The environmental protection measures adopted in the Group's production plant are as follows:

- Management Procedures for Waste Water Processing System (污水處理系統管理程序);
- Management Procedures for Three Wastes (Waste Water/Exhaust Gas/Waste Residue) (三廢管理程序);
- Management Procedures for Employee Health (人員健康管理程序);
- Management Procedures for Employee Hygiene (人員衛生管理程序);
- Management Procedures for Occupational Health (生產區工藝衛生管理程序);
- Management Procedures for Environmental Hygiene (環境衛生管理程序);
- Management Procedures for Detergents and Disinfectors (清潔劑消毒劑管理程序); and



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- Management Procedures for Rodent and Insect Control (防鼠防虫管理程序).

Sichuan Pharmaceutical has obtained the Certificate of Waste Disposal Permit (排放污染物許可證) on 11 March 2003 and the certificate will expire on March 2006.

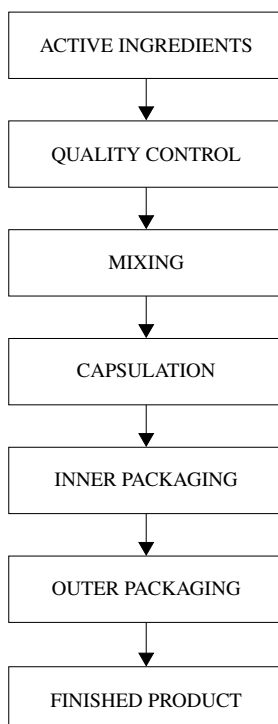
Up to the Latest Practicable Date, the Group has not received any notice or warning letter from the Environmental Protection Bureau alleging any breach of any environmental laws and regulations.

### PRODUCTION PROCESS

The Group imposes stringent quality control at each stage of production in order to ensure product safety and minimum wastage and failure rates. The Group's production facilities in Chengdu, Sichuan Province, the PRC are constructed in accordance with China GMP standards and obtained GMP certification in December 2001. The new production facilities in Wuhan, the PRC are constructed in compliance with China GMP standards in terms of production process, quality of products and management. The Directors expect that the GMP certificate will be granted by early 2004. The Directors are committed to maintaining high standard of quality control for its products as they have a direct impact on the health of the users of the products.

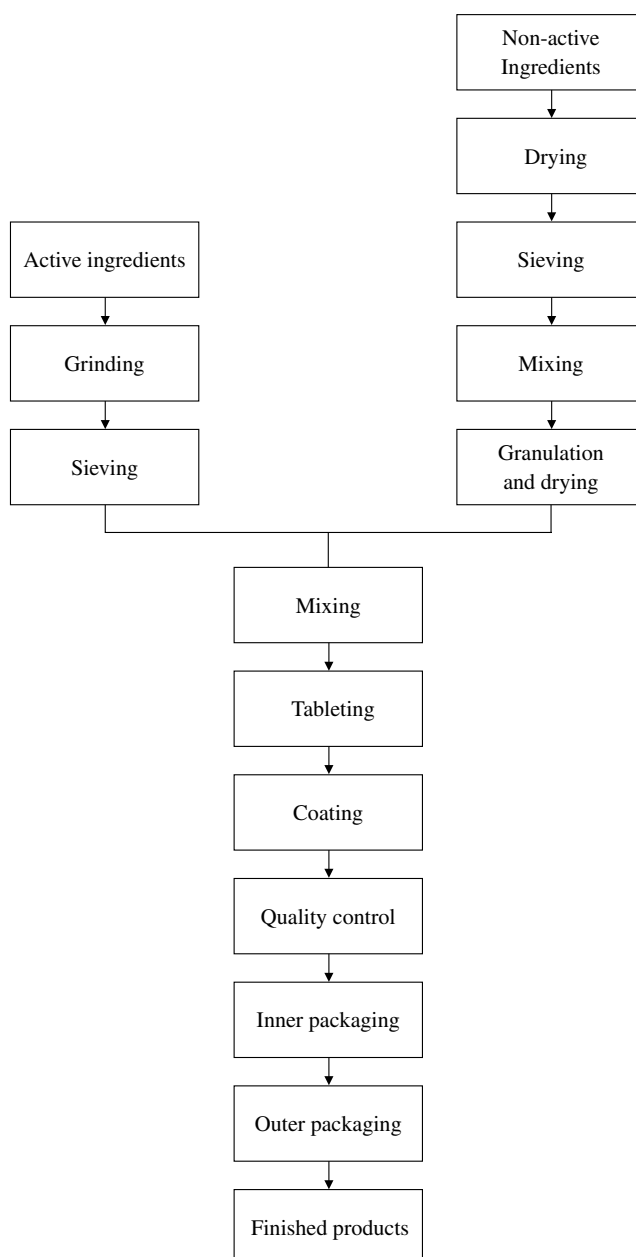
The production process of the Group's products are illustrated below:

#### Osteoform



# BUSINESS

## Opin



## Employees

As at Latest Practicable Date, the Group had 1,212 employees, comprising 30 in research and development, 240 in production, 843 in sales and distribution, and 99 in general administration and finance. 1,188 of these employees were located in the PRC, 9 in Australia and 15 in both Hong Kong and Macao.

None of the Group's employees is represented by a labour union or is subject to a collective bargaining agreement, nor has the Group experienced any work disruption during the three years ended 31 December 2002. The Directors believe that the relationship between the Group and its employees is good.

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### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Certain objectives of the Group were stated in the Prospectus. Set out below is a comparison of the business objectives of the Group from 30 January 2002 up to the Latest Practicable Date as referred to in the Prospectus and the actual business progress of the Group or, if applicable, the changes in such business objectives for the corresponding periods under review:

Business objectives	Statement in the Prospectus	Actual business progress
<b>A. Product development and enhancement</b>		
a. Interferon nasal spray with an indication for upper respiratory tract viral infections including treatment of flu and cold	Prepare for clinical trials	<p>In the process of planning for clinical trial protocol with a view to fulfilling SFDA new requirements</p> <p>Continued co-operation with a number of pharmaceutical companies in the PRC with a target to conduct clinical trial</p>
b. Receptase, an enzyme-based oral medication in powder form for farm animals designed to prevent diarrhea	Prepare for field trials	<p>Preparing for clinical field trial and registration</p> <p>Completed animal tests and experimental results tracking, preparing for clinical trial and commenced working on patent registration</p> <p>Expected to conduct clinical trial in the 2nd half of 2003</p>
c. Probiotics, live beneficial bacterial capsules for healthy bowels	Stability testing	<p>Having selected target bacterial strains and indications</p> <p>Having conducted research on enhancing stability and further testing</p> <p>Expected to conduct clinical trial in the 2nd half of 2003</p>

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<b>Business objectives</b>	<b>Statement in the Prospectus</b>	<b>Actual business progress</b>
d. EPO tablets to increase red blood cells in chronic subclinical anaemia	Animal testing and stability testing	<p>Completed first group of animal testing, application for patent of invention at the preliminary stage</p> <p>Continued to prepare for registration of new drug</p> <p>Expected to obtain the approval for the registration of new drug by 2006</p>
e. Ferrous orotate, a chelated iron supplement for chronic anaemia	Protocol preparation	<p>Completed preliminary pilot production</p> <p>Planning to apply for registration as a drug with the authority</p> <p>PRC patent office has accepted the application for patent registration</p> <p>Expected to obtain the approval for the patent registration by 2006</p>
f. Depile, a herbal capsule for haemorrhoid	Clinical trial/Pilot production	<p>Completed clinical trial</p> <p>Having applied for Class 6 New Drug and Production Permit</p> <p>PRC patent office has accepted the application for patent registration</p> <p>Having commenced small scale and intermediate pilot production</p> <p>Expected to obtain the approval for the patent registration by 2006</p>

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Business objectives	Statement in the Prospectus	Actual business progress
<p><b>B. Forging strategic alliances for partnerships to pursue the marketing objective of platform technology transfer</b></p>	<p>Ways to commercialize the platform technologies:</p> <ol style="list-style-type: none"> <li>1. Joint venture</li> <li>2. Service fee for processing of stabilization of raw material</li> <li>3. Licence fee for use of technologies</li> <li>4. Royalty fee from manufacturers to use the Group's platform technologies</li> </ol>	<p>Conducted tests on improving vaccine production with PSD technology for a large animal vaccine manufacturer listed on the Shanghai Stock Exchange and having formulated plans to commercialise PSD technology with such manufacturer</p> <p>Micro-capsulated samples of various vaccines produced for further testing results</p> <p>Preparing plans for further formulations, optimisation and clinical trials of the samples</p> <p>Planning to liaise with other potential overseas partners for commercialisation</p> <p>Having reached an understanding on commercialisation of SDDS technology with a PRC based company</p> <p>Entered into a memorandum of understanding with an independent third party in relation to a strategic alliance with, through a possible acquisition of equity interest in, a pharmaceutical company by the Company on 4 April 2003. An earnest money of HK\$10 million had been deposited with the pharmaceutical company. On the date of the memorandum of understanding, the target pharmaceutical company was held as to 90% by an independent third party and</p>

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<b>Business objectives</b>	<b>Statement in the Prospectus</b>	<b>Actual business progress</b>
		<p>the remaining 10% by Mr. Ma Lai Chi who was the director of Wide Trimuph and Beshabar (Macao) but had resigned from those companies on 14 March 2003. On 2 June 2003, the memorandum of understanding was terminated mainly because the shareholders of the pharmaceutical company could not reach an agreement on the valuation of the company in a timely manner. Full amount of the earnest money previously deposited was repaid to the Company.</p> <p>No income has yet realized from the above. The Directors believe that it is due to stringent requirements in the pharmaceutical industry which, in general, require regulatory approval for a pharmaceutical product before production and sales of that can be taken place. Part of such approval requires stringent pre-clinical and clinical testing which is time-consuming. As such, the Group and its business partners closely monitor the relevant requirements and work gradually towards their respective targets</p>

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<b>Business objectives</b>	<b>Statement in the Prospectus</b>	<b>Actual business progress</b>
<b>C. Strengthening marketing and distribution networks in the PRC with an emphasis on expanding into the OTC drug market</b>	Expand the sales channels of OTC drugs from hospitals to supermarkets and general drug stores	Sales channels for Opin and Osteoform have expanded to include general drug stores. The number of retail distribution outlets of Osteoform have increased from around 30,000 at the beginning of the year 2002 to the current number of around 40,000
<b>D. Expansion to international markets and development of markets in the Asia Pacific region and Europe</b>	For the South East Asian region, initial marketing work has commenced. For the European market, initial marketing work has commenced in Russia	<p>Obtained government approval for Osteoform and drug registration in Russia in February 2002. An agreement was entered into with a Russian company in July and the first shipment of Osteoform was delivered in October 2002</p> <p>Having further discussion with the Russian company on expanding the business and promotion of the products</p>
<b>E. Research &amp; development and production</b>	Further expansion of production capacity and research & development capabilities, and further development of new products	<p>The Group's GMP compliant plant in Chengdu, Sichuan Province, the PRC was commissioned</p> <p>The Chengdu plant has taken over the production and packaging of Osteoform from the original sub-contractor</p> <p>Planned for further expansion of the production capacity and increase of the range of products produced in the Chengdu plant</p> <p>Steady progress in furthering the development of new products</p>
<b>F. Establishment of the Group's websites</b>	Several websites are used for advertising and promotion. The medium-term objective is to develop the websites into sales channel and e-commerce platform	Established two PRC websites and one Australian website. E-commerce platform development is under investigation

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Business objectives	Statement in the Prospectus	Actual business progress
<b>G. Milestones of business objectives and future plans</b>		
<p>a. Establishment of new production facilities of “Sichuan Pharmaceutical”</p>	<ul style="list-style-type: none"> <li>• Engagement of consultant to ascertain the plan before June 2002</li> <li>• Complete planning, application of permit and commencement of construction before December 2002</li> </ul>	<p>The Group has changed its plan of establishing a new production plant in Sichuan Province to Wuhan</p> <p>A site has been selected in May 2002 and handed over to the Group in June 2002</p> <p>Construction permit was obtained in September 2002</p>
<p>b. Phase I construction of Chengdu research and development centre</p>	<ul style="list-style-type: none"> <li>• <i>Construction</i></li> </ul> <p>Complete planning and commence construction before June 2002</p> <p>Complete structural phase of construction before December 2002</p>	<p>Having implemented the plans in accordance with the schedule</p>
<ul style="list-style-type: none"> <li>• <i>Equipment</i></li> </ul>	<ul style="list-style-type: none"> <li>• Turbo coater deposit and progress payment before June 2002</li> <li>• Finalise miscellaneous equipment list before June 2002</li> <li>• Commissioning of turbo coater and confirm ordering of miscellaneous equipment before December 2002</li> </ul>	<p>Having installed and commenced the operation of a turbo coater in the Group’s Chengdu plant, instead of the Chengdu research and development centre due to the pressing demand for the equipment while waiting for the construction of the research and development centre in Chengdu, Sichuan Province, the PRC</p> <p>Having finalised the list of equipment and commenced ordering of the equipment</p>



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Business objectives	Statement in the Prospectus	Actual business progress
<ul style="list-style-type: none"> <li>• <i>GLP certification</i></li> </ul>	<p>Engagement of consultant before June 2002</p> <p>Complete GLP documentation before December 2002</p>	<p>Re-scheduled for the implementation of GLP by June 2004.</p>
<p>c. Upgrading of the research and development centre in Melbourne, Victoria, Australia</p>	<p>Lease of a GMP factory/ laboratory, GMP construction and ordering of equipment before June 2002</p> <p>GMP implementation and equipment commissioning before December 2002</p>	<p>The Group has changed its plan of leasing a GMP factory laboratory to purchasing a plant building with land and converting that building into a research and development centre and pilot production site</p> <p>Selected a site in June 2002</p> <p>Entered into a sale and purchase agreement with an independent third party to acquire a plot of land together with a building in July 2002</p> <p>Completed design of the research and development centre in January 2003</p> <p>Signed a construction contract in February 2003</p> <p>Relocated the office and laboratory from the original premises to the new research and development centre in March 2003</p>

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Business objectives	Statement in the Prospectus	Actual business progress
<p>d. Product research and development</p> <ul style="list-style-type: none"> <li>• <i>Nasal Interferon Project</i></li> </ul>	<p>Establish study protocol, toxicology study, stability study and animal study before June 2002</p> <p>Finalize dossier registration and clinical trial before December 2002</p>	<p>Postponed the plan for a year to review clinical trial protocol and strategy for compliance with new SFDA drug registration regulation</p> <p>The Directors believe that postponement of the plan was mainly due to technical obstacles encountered by the Group in the development of the product. To resolve such issue, the Group has been actively seeking external resources to strength the Group's technical capability and a number of pharmaceutical companies in the PRC have been invited to join forces with the Group to work on the matter</p>
<ul style="list-style-type: none"> <li>• <i>EPO Project</i></li> </ul>	<p>Complete technical and marketing feasibility study, sample preparation and establish study protocol before June 2002</p> <p>Complete toxicology study, stability study and animal study before December 2002</p>	<p>Completed in accordance with the plan</p> <p>PRC Patent Office accepted the patent application in July 2002</p>

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Business objectives	Statement in the Prospectus	Actual business progress
<ul style="list-style-type: none"> <li>• <i>Probiotic Project</i></li> </ul>	<p>Confirm formulation, technical feasibility study, toxicology study and stability study before June 2002</p> <p>Complete efficacy study before December 2002</p>	<p>Having confirmed formulation, technical feasibility study, toxicology study and stability study</p> <p>As the PRC authority has abolished the health supplement category, the product is to be registered as a nutrition supplement</p> <p>Re-selected bacterial strains in December 2002</p> <p>Having commenced stability study</p> <p>The Group has taken a longer time than expected to decide on an appropriate bacterial strain in order to satisfy both technical and marketing considerations. At this stage, a suitable bacterial strain has been decided on. Development work is currently carried on by the Group's research and development team in Sichuan Province, the PRC</p>
<ul style="list-style-type: none"> <li>• <i>Receptase Project</i></li> </ul>	<p>Establish study protocol, toxicology study and stability study before June 2002</p> <p>Finalise dossier registration and clinical trial before December 2002</p>	<p>Having established study protocol, toxicology study and stability study</p> <p>Accomplished intensive animal tests</p>

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Business objectives	Statement in the Prospectus	Actual business progress
<ul style="list-style-type: none"> <li>• <i>Project Depile</i></li> </ul>	<p>Finalise dossier registration, clinical trial and marketing plan</p>	<p>Finalised market research activities in December 2002</p> <p>Acceptance of the applications for new drug registration and production permit by the SFDA in January 2003</p> <p>Expecting to launch the product in the fourth quarter of 2003</p>
<ul style="list-style-type: none"> <li>• <i>Ferrous Orotate Project</i></li> </ul>	<p>Complete preliminary investigation, toxicology study, stability study and efficacy study before June 2002</p> <p>Finalise dossier registration and submit application before December 2002</p>	<p>Completed preliminary investigation, toxicology study, stability study and efficacy study</p> <p>Acceptance of the patent application by PRC Patent Office in December 2002</p>
e. Market expansion		
<ul style="list-style-type: none"> <li>• <i>Network setup</i></li> </ul>	<p>Complete elementary staff training before June 2002</p> <p>Expand network of point of sales, local distributors, regional wholesalers and medical specialists before December 2002</p>	<p>Completed nationwide training on communication skills for sales staff and negotiation skills for managers</p> <p>Technical training for sales staff in key provinces in the PRC completed</p>
<ul style="list-style-type: none"> <li>• <i>Promotion to cover point of sales, local distributors and consumers</i></li> </ul>	<p>Launch promotion campaigns targeting to points of sales, local distributors and consumers</p>	<p>The Group has around 700 existing distributors nationwide divided into primary and secondary tiers</p> <p>Gradual progress adjustment has been made based on market sales</p>
<ul style="list-style-type: none"> <li>• <i>Market survey</i></li> </ul>	<p>Conduct market survey</p>	<p>Implemented in accordance with the stated plan</p>

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### COMPARISON OF USE OF PROCEEDS FROM THE PLACING IN FEBRUARY 2002 WITH ACTUAL APPLICATIONS

The Company raised total net proceeds of approximately HK\$96.0 million from the Placing in February 2002. Set out below is the comparison of the Group's actual use of proceeds for the period since its listing on GEM in February 2002 and up to 31 December 2002, and its intended use of proceeds as stated in the Prospectus:

	<b>Intended use of proceeds as set out in the Prospectus</b>	<b>Actual use of proceeds for the period from 7 February 2002 up to 31 December 2002</b>
<b>Intended uses of proceeds stated in the Prospectus</b>	<i>HK\$'000</i>	<i>HK\$'000</i>
• Establishment of new production lines in Chengdu, Sichuan Province (revised to the establishment of a GMP compliant plant in Wuhan)	18,000	18,000
• Construction of phase I of the research and development centre in Chengdu, Sichuan Province	27,000	16,000
• Research and development of biopharmaceutical and conventional pharmaceutical products	9,000	9,000
• Construction of the GLP/GMP standard research and development centre in Melbourne, Australia	11,000	4,300
Staff training before 30 June 2002	4,000	4,000
Network setup, promotion and market survey in the second half of 2002	5,000	5,000
Staff training, promotion and market survey in the first half of 2003	5,000	–
Promotion and market research in the second half of 2003	5,000	–
• Total expenditure on marketing strategies such as expansion of distribution network, staff training and market survey	19,000	9,000
• Remaining proceeds appropriated for working capital and the buffering expenses of HK\$6.4 million for staff recruitment and establishment of new production lines in the Group's production plant in Chengdu, Sichuan Province, the PRC	12,000	12,000
<b>Net fund raised/used</b>	<b>96,000</b>	<b>68,300</b>

## COMPETITIVE ADVANTAGES

The Directors believe that the Group is well positioned to expand its business by utilising its competitive advantages set out below:

### **Proven research and development capabilities**

The Group has a team of professional scientists with diverse backgrounds and specialisations ranging from formulation, product development, production process control, vaccine development, polymer chemistry, micro bio-encapsulation to enzyme immobilisation. The Group's research and development capabilities are further strengthened and enhanced by the Group's strategic alliances, co-operation arrangements and business ventures with pharmaceutical companies and research institutes in the biotechnology and pharmaceutical industry, thereby enabling the Group to launch new products to the market in an expeditious manner.

### **Established and extensive distribution network**

The Group has an established and extensive distribution network, comprise of 28 marketing and liaison offices and 700 distributors to distribute the Group's products, covering over 20 cities in the PRC.

### **Production facilities constructed in accordance with/of GMP standards**

The Group has a production plant in Chengdu, Sichuan Province, the PRC which obtained China GMP certification in December, 2001 and a production plant in the development zone of Wuhan University under construction in accordance with GMP standard. In light of the Notice on the Overall Acceleration of the Implementation and Supervision of Good Manufacturing Practice for Pharmaceutical (關於全面加快監督實施藥品GMP工程的通知) which requires all the pharmaceutical manufacturing enterprises to comply with the GMP standards by the end of June 2004, the Directors believe that the Group has an edge over other manufacturers in the PRC which are yet to comply with GMP standard in terms of the quality and reputation of the products.

### **Cost effectiveness**

By using the PSD technology for the production process of Opin, the Group is able to improve its production efficiency with its existing production facilities and reduce the material costs per unit, thus achieving economies of scale.

### **Experienced management team**

Its dedicated management team, which has extensive experience in the biotechnology and pharmaceutical business, is committed to developing, producing and distributing effective and affordable biotechnology and pharmaceutical products.

### **Strategic segregation of functions in different locations**

The Group's main research and development facilities are located in Victoria, Australia. The State Government of Victoria has planned to invest at least AUD320 million (approximately HK\$1,280 million) over the four years to 2004-2005 to deliver key aspects

of its biotechnology strategic plan, which aims to develop Melbourne, Victoria, Australia, as one of the top five locations in the world for biotechnology research and development, commercialisation, production and marketing.

Sichuan Province's population accounted for approximately one-third of that of the western PRC region in 2000 and is expected to be one of the most populated provinces in the western part of the PRC. As a result of the national policy to encourage the development of the western part of the PRC, Sichuan Province is expected to play a leading role in the economy of that region. The Group has established a production plant and commenced to construct a research and development centre in Chengdu, Sichuan Province, the PRC and a GMP compliant production plant in the development zone of Wuhan University, the PRC. This will enable the Group to capture the potential opportunities provided by this national policy.

### **Unique platform technologies under patent applications**

The PSD and SDDS are platform technologies either invented solely by Mr. Ko, one of the founders of the Group, or in conjunction with Mr. Au Yeung. Application for the registration of various patents for the two platform technologies have been filed in a number of countries and region, such as, Australia, Europe, Taiwan, Japan, the PRC and the US. Although the patents have not been obtained by the Group, the Directors believe it is likely that patent registration may be completed in some countries by the end of 2003. Upon the granting of patents in the countries and region in which applications have been filed, the Group will be afforded with the exclusive right to exclude others from practising the invention in those countries in which the patent is granted. Once granted, the term of a particular patent is generally 20 years from the date of application for registration.

## **INTELLECTUAL PROPERTY RIGHTS**

Details of the intellectual property rights of the Group are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix IV to this document.

## **CONNECTED TRANSACTIONS**

### *Discontinued connected transactions*

The Group has entered into certain transactions which constitute connected transactions under Chapter 14 of the Listing Rules. Those transactions have been discontinued as at the Latest Practicable Date, details of which are disclosed in the paragraph headed "Related party transactions" in the accountants' report in Appendix I to this document.

### *Continuing connected transactions*

The following sets out the transactions the Group has entered into which constitute connected transactions under Chapter 14 of the Listing Rules but which did not constitute connected transactions under the GEM Listing Rules when the Shares are listed on GEM.

## **1. Trademark licence agreement**

Pursuant to a trademark licence agreement dated 31 May 2002 entered into between Maxsun, as licensor, and Beshabar (Macao), as licensee, Maxsun granted a licence to Beshabar (Macao) to use its PRC trademark “乐力Osteoform” for 20 years within the territories specified in the agreement at nil licence fee.

Maxsun is a non wholly owned subsidiary of the Company in which the Group has a 51% interest and Beshabar (Macao) is a wholly owned subsidiary of the Company, the licence agreement constitutes a connected transaction under the Listing Rules.

Based on the information provided by the Group and on the confirmation and representation made by the Directors, the Directors (including the independent non-executive Directors) and the Sponsor are of the opinion that the terms of the licence agreement are fair and reasonable so far as the Shareholders are concerned and have been entered into by the Group in the ordinary course of business of the Group and on normal commercial terms.

Given that there is no licence fee payable by the Group under the licence agreement, the transaction is not subject to the disclosure and shareholders' approval requirements under Rule 14.24(5) of the Listing Rules.

## **2. Purchases of Osteoform powder from Pharmco**

The Group entered into the Marketing and Distribution Agreement with Pharmco in December 2000 which was terminated and replaced by the New Marketing and Distribution Agreement on identical terms on 31 May 2002. Pursuant to the New Marketing and Distribution Agreement, the Group agreed to purchase Osteoform powder exclusively from Pharmco. Under the terms of the New Marketing and Distribution Agreement, if the Group fails to purchase the minimum quantities of Osteoform powder as agreed or is otherwise in breach of the agreement, Pharmco has a right to terminate the New Marketing and Distribution Agreement.

The Company currently holds a 51% interest in Maxsun and the remaining 49% interest are held by Ms. Betty Wei Bai and Mr. Tze-Rou Kuo. As Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are the beneficial owners of the entire issued share capital of Pharmco, Pharmco is regarded as a connected person of the Company under the Listing Rules. Therefore, the New Marketing and Distribution Agreement and the transactions contemplated thereunder (the “Transactions”) constitute connected transactions under Chapter 14 of the Listing Rules.

The Group has been purchasing Osteoform powder from Pharmco during the three years ended 31 December 2002. For the three years ended 31 December 2002, aggregate purchases made by the Group from Pharmco amounted to approximately HK\$12,928,000, HK\$21,258,000 and HK\$37,072,000 respectively, representing approximately 43%, 43% and 55% respectively of the Group's total purchases for these periods. The compounded average growth rate per annum was approximately 70% for the same period.

Based on the information provided by the Group and on the confirmation and representations made by the Directors, the Directors (including the independent non-executive Directors) and the Sponsor are of the view that the Transactions are of a type that has been and will be entered into on a regular basis, on normal commercial terms and on terms that are fair and reasonable so far as the interests of the Shareholders, taken as a whole, are concerned and in the ordinary course of business of the Group.



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Given the Transactions will take place from time to time in the future on a regular basis, are part of the usual and ordinary business to be conducted on normal commercial terms and on terms that are fair and reasonable so far as the interests of the Shareholders, taken as a whole, are concerned and in the ordinary course of business of the Group, and the aggregate consideration payable by the Group for each of the three financial years ending 31 December 2005 may exceed the higher of HK\$10 million or 3% of the book value of the Group's net tangible assets, the Directors consider that it would not be practical to make disclosure of, or (where necessary) to obtain Shareholders' approval for, such Transactions in full compliance with the Listing Rules.

Accordingly, an application has been made to the Stock Exchange for a waiver from strict compliance with the disclosure and shareholders' approval requirements of the Listing Rules in respect of the Transactions for the three financial years ending 31 December 2005 on the following conditions:

1. that the Transactions will be:
  - (i) entered into by the Group in the ordinary and usual course of its business;
  - (ii) conducted on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and made by similar entities) or (where there is no available comparison) on terms that are fair and reasonable as far as the Shareholders are concerned; and
  - (iii) entered into either in accordance with the terms of the agreements governing the Transactions or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties;
2. the aggregate amount of the purchases for each of the three financial years ending 31 December 2005 of the Company shall not exceed HK\$54 million, HK\$76 million and HK\$108 million respectively (the "Purchase Cap Amount");
3. the independent non-executive Directors shall review the Transactions annually and confirm in the Company's next annual report that the Transactions were conducted in the manner as stated in paragraphs 1 and 2 above;
4. the Company's auditors shall be engaged by the Company to review the Transactions annually and confirm in a letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
  - (i) the Transactions have received the approval of the Company's board of Directors;
  - (ii) the Transactions have been entered into in accordance with the terms of the agreements governing the Transactions; and
  - (iii) the Purchase Cap Amount has not been exceeded.

Where, for whatever reason, the independent non-executive Directors decline to conduct the review or are unable to give the confirmation as required under paragraph 3 above and/or the auditors of the Company decline to accept the engagement or are unable to provide the Letter, the Directors shall notify the Stock Exchange immediately;

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5. details of the Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraphs 3 and 4 above; and
6. the Company has undertaken to the Stock Exchange that so long as the Shares are listed on the Stock Exchange, the Company's auditors will be given full access to its relevant books and records for the purpose of the auditors' review of the Transactions.

The Purchase Cap Amount is estimated based on the historical purchases record of the Group from Pharmco for the three financial years ended 31 December 2002, which shown a compounded average growth rate of approximately 70% per annum and the estimated average growth rate of 42.2% per annum from 2003 to 2005.

Any continuation of the Transactions after 31 December 2005 shall strictly comply with the requirements of Chapter 14 of the Listing Rules or any further waiver granted by the Stock Exchange thereto.

If any terms of the Transactions as mentioned above is altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as at the Latest Practicable Date on transactions of the kind to which the Transactions belong, the Company will take immediate steps to ensure compliance with such requirements within a reasonable time.

### **3. Tenancy agreements**

Pursuant to a tenancy agreement dated 15 March 2001 entered into between Wuhan Maxin Industrial Company Limited 武漢馬新實業有限公司 ("Wuhan Maxin") as lessor and the Group as lessee, the Group agreed to lease an office premises at 9th Floor, Tianhe Building, No 232 Pang Liu Yang Road, Wuchang District, Wuhan, the PRC from Wuhan Maxin for a term of six years commencing from 1 January 2001 to 31 December 2006. The monthly rental is RMB13,799.7 (i.e. annual rental is RMB165,596.4) (exclusive of water and electricity expenses) with a term of renewal at the fourth rental year under the tenancy agreement.

Pursuant to another tenancy agreement dated 8 March 2002 entered between Wuhan Maxin as lessor and the Group as lessee, Wuhan Maxin agreed to lease to the Group a premise at 1st Floor, Tianhe Building, No 232 Pang Liu Yang Road, Wuchang District, Wuhan, the PRC as canteen for a term of three years and nine months commencing from 31 March 2002 to 31 December 2005. Under this tenancy agreement, the Group agreed to serve meals free of charge to 20 employees of Wuhan Maxin as the consideration.

Mas is currently holding 60% of the registered capital of Wuhan Maxin, and the entire issued share capital of Mas is held by Mr. Ma Lai Chi and his wife respectively. Mr. Ma Lai Chi was the director of Wide Triumph and Beshabar (Macao), both of which are wholly owned subsidiaries of the Company, prior to 14 March 2003. Under the Listing Rules, directors include any person who was within the preceding 12 months a director of the Company or any of its subsidiaries. Therefore, both Mas and Wuhan Maxin are regarded as connected persons of the

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Company under the Listing Rules. The tenancy agreements, therefore, constitute connected transactions for the Company.

BMI Appraisals Limited, an independent property valuer, has reviewed the terms of the tenancy agreements and has confirmed that the rental payable under the tenancy agreements is on normal commercial terms and fair and reasonable so far as the Shareholders are concerned.

Based on the confirmation of BMI Appraisals Limited, the Directors (including the independent non-executive Directors) and the Sponsor are of the opinion that the terms of the tenancy agreements are fair and reasonable so far as the Shareholders are concerned and have been entered into by the Group in the ordinary course of business of the Group and on normal commercial terms.

Given that the aggregate annual rental payable by the Group under the tenancy agreements is less than the de-minimis threshold of HK\$1,000,000 as stipulated under Rule 14.24(5) of the Listing Rules, the transactions are not subject to any disclosure or shareholders' approval requirements under Chapter 14 of the Listing Rules.

#### **4. Financial assistance to Sichuan Pharmaceutical, a non wholly owned subsidiary of the Company**

Sichuan Pharmaceutical is a sino-foreign equity joint venture owned as to 85% by Yugofoil, a wholly owned subsidiary of the Company and as to 15% by Sichuan Kangao Pharmaceutical Technology Development Co., Ltd (四川康奧醫藥科技開發有限責任公司) ("Sichuan Kangao").

The Company entered into a guarantee agreement with Agricultural Bank of China, Sichuan Branch Head Quarters Sub Branch (中國農業銀行成都市總府支行) on 26 June 2002 for the maximum amount of RMB60 million of banking facilities loan advanced or will be advanced from Agricultural Bank of China, Sichuan Branch Head Quarters Sub Branch (中國農業銀行成都市總府支行) to Sichuan Pharmaceutical. Subsequently, three separate loan agreements were entered into between Sichuan Pharmaceutical and Agricultural Bank of China, Sichuan Branch Head Quarters Sub Branch (中國農業銀行成都市總府支行) on 26 June 2002, 30 August 2002 and 8 October 2002 respectively. An aggregate amount of RMB30 million was advanced by Agricultural Bank of China, Sichuan Branch Head Quarters Sub Branch (中國農業銀行成都市總府支行) to Sichuan Pharmaceutical for a term of one year from the date of the loan agreements. In April 2003, the Directors have applied to the Agricultural Bank of China, Sichuan Branch Head Quarters Sub Branch (中國農業銀行成都市總府支行) for a renewal and extension of the total banking facilities up to RMB100 million to cater for further development of the Group's business. Accordingly, the Company entered into a new guarantee to the Agricultural Bank of China, Sichuan Branch Head Quarters Sub Branch (中國農業銀行成都市總府支行) in favour of Sichuan Pharmaceutical for a maximum amount of RMB100 million on 13 June 2003 for a term of 2 years.

Based on the information provided by the Group and on the confirmation and representation made by the Directors, the Directors (including the independent non-executive Directors) and the Sponsor are of the opinion that the granting of financial assistance by the Group are fair and reasonable so far as the Shareholders are concerned and have been entered into in the ordinary and usual course of business of the Company and Sichuan Pharmaceutical and on normal commercial terms.

## BUSINESS

Mr. Wu Qing Jiang, a director of Sichuan Pharmaceutical, was one of the directors of Sichuan Kangao and held approximately 33.3% interest in the registered capital of Sichuan Kangao. On 31 March 2003, Mr. Wu transferred his interest in Sichuan Kangao to an independent third party and resigned from the office of director of Sichuan Kangao.

As such, the transaction constitute an exempt connected transaction under Rule 20.33(1) of the GEM Listing Rules so long as the Shares are listed on GEM.

Given that the financial assistance is granted by the listed issuer to a non wholly owned subsidiary in which no connected person is a shareholder, the transaction is only subject to the disclosure requirements under Rule 14.25(2)(a) of the Listing Rules. Accordingly, details of the transaction will have to be disclosed in the next annual report of the Company.

### **5. Financial assistance between non-wholly owned subsidiaries of the Company**

Wuhan Weiao is a sino-foreign equity joint venture owned as to 95% by Yugofoil, a wholly owned subsidiary of the Company and as to 5% by Wuhan Tianao Pharmaceutical Factory (武漢天奧制藥廠). Sichuan Pharmaceutical is a sino-foreign equity joint venture owned as to 85% by Yugofoil and as to 15% by Sichuan Kangao.

#### **(a) Financial assistance given by Sichuan Pharmaceutical to Wuhan Weiao**

Pursuant to a loan agreement entered into between Wuhan Weiao and Huaxia Bank Wuhan City Hongshan Branch (華夏銀行武漢市洪山支行) on 30 June 2002, an amount of RMB3 million was advanced by Huaxia Bank Wuhan City Hongshan Branch (華夏銀行武漢市洪山支行) to Wuhan Weiao for a term of one year from 30 June 2002 to 30 June 2003. Sichuan Pharmaceutical entered into an all monies guarantee with Huaxia Bank Wuhan City Hongshan Branch (華夏銀行武漢市洪山支行) on 30 June 2002 for the loan of RMB3 million.

Pursuant to a delay repayment agreement entered into between Wuhan Weiao and the Finance Bureau of Wuhan City (武漢市財政局) on 3 May 2002, the Finance Bureau of Wuhan City (武漢市財政局) agreed to delay the repayment date of the loan of RMB3 million advanced to Wuhan Weiao from 7 May 2002 to 7 May 2003.

#### **(b) Financial assistance given by Wuhan Weiao to Sichuan Pharmaceutical**

Pursuant to a loan agreement entered into between Sichuan Pharmaceutical and Bank of Communications (交通銀行) on 20 November 2002, an aggregate amount of RMB5 million was advanced by Bank of Communications (交通銀行) to Sichuan Pharmaceutical for a term of one year from the date of the loan agreement. Wuhan Weiao entered into an all monies guarantee with Bank of Communications (交通銀行) on 20 November 2002 for the loan of RMB5 million.

## BUSINESS

Based on the information provided by the Group and on the confirmation and representation made by the Directors, the Directors (including the independent non-executive Directors) and the Sponsor are of the opinion that the terms of the guarantees are fair and reasonable so far as the Shareholders are concerned and have been entered into by the Group in the ordinary and usual course of business of Sichuan Pharmaceutical and Wuhan Weiao and on normal commercial terms.

The transactions constitute exempt connected transactions under Rule 20.23(1) of the GEM Listing Rules so long as the Shares are listed on GEM.

Given that the financial assistance is granted by a non wholly owned subsidiary of the Company to another non wholly owned subsidiary in which the transactions are on normal commercial terms in the ordinary and usual course of business of both subsidiaries and no connected person is a shareholder, the transactions are not subject to the disclosure or shareholders' approval requirements under Rule 14.24(4) of the Listing Rules.

### **FUTURE PLAN AND PROSPECTS**

The Directors anticipate that demand for effective and affordable biopharmaceutical and conventional pharmaceutical products worldwide will continue to grow as a result of the growing worldwide population, improving living standard, longer life expectancy and general availability of data from the Human Genome Program. Hence, the Directors intend to implement the following plans to capture the business opportunities:

#### ***Product development and enhancement***

The Group will focus on developing and enhancing products which have great market potential and are effective and affordable. The following table summarises the particulars of the biopharmaceutical products and conventional pharmaceutical products which are under development by the Group:

<b>Proposed name of the products</b>	<b>Therapeutic indications</b>	<b>Active ingredient</b>	<b>Products form</b>	<b>The Group's interest</b>
Interferon nasal spray	Upper respiratory tract viral infections e.g. cold & flu	Interferon	Spray	100%
Receptase	Oral medication for farm animals for prevention of diarrhea	Enzyme	Powder	100%
Probiotic	Ingest live beneficial bacteria for healthy bowels	Probiotic bacteria	Capsule	100%
EPO	Increase red blood cell in chronic subclinical anaemia	EPO	Tablet	100%
Ferrous Orotate	Iron supplement for nutritional anaemia	Chelated iron supplement	Tablet	100%
Depile	Haemorrhoid	Herb	Capsule	85%

## BUSINESS

Proposed name of the products	Therapeutic indications	Active ingredient	Products form	The Group's interest
Fenofibrate chewable tablet	Regulate blood lipids	Fenofibrate	Tablet	85%
Aceclofenac	Relief soft tissue pain and inflammation	Aceclofenac	Tablet	85%
Osteoform pediatric formulation chewable tablet	Helps to prevent calcium deficiency	Calcium amino acid chelate	Tablet	85%

### *Strategic alliances*

The Group will pursue its marketing objective of technology transfer by actively forging strategic alliances for mutually beneficial partnerships. The search and development mission is an example of this active strategy where the Group will explore the market looking for potential technology transfer partners. The technology transfer may involve, for example, the application of the Group's platform technologies to its partners' existing products that are already on the market. This may increase the products' efficacy, streamline the production process and/or reduce the development costs. The Group will charge a royalty fee or a commission from sales of the improved pharmaceutical products.

The platform technologies developed by the Group may be commercialised in different ways as follows:

- Joint venture – Forming joint ventures with partners to manufacture, market and distribute the improved products will enable the Group to enjoy the profit generated directly from such business operations;
- Fee for service – Through the co-operation on a “fee for service” basis in which the Group will only be involved in the processing of stabilisation of the raw material, the Group will return the intermediate products to the suppliers to complete the production process according to their own specifications;
- Licence fee – The Group may grant a licence to an end user for a fee for the use of a technology in improving the value of a specified product; and
- Royalty fee – The Group may charge an on-going royalty fee for granting the right to manufacturers which use the Group's platform technology for a given specified product.

## BUSINESS

Given the Group's years of experience in pre-clinical tests, clinical trials and the drug approval process, the Directors consider that the Group is well-positioned to expedite the product development cycle and shorten the lead time for the launch of new products. The Directors believe that this competitive advantage will be conducive to the Group's pursuit of technological alliances with leading global pharmaceutical companies that intend to enter into the PRC market.

### *Marketing and distribution network in the PRC*

The Group will focus its product marketing strategies on establishing and building its position as a reputable company specialising in its platform technologies. It will focus initially on expanding the current OTC and prescription drug market for its flagship products and gradually introducing new products to the PRC market. The Group will invest resources on strengthening its distributing network in the PRC. The emphasis will be to expand the distribution network to the OTC market to support new product launch and in preparation for the PRC's accession to the WTO.

Historically, most of the sales channels of the Group has been aiming at hospital outlets. The Directors believe there is significant potential in the OTC market through supermarkets and general drug stores. The Directors believe that, in view of the vast geographical span and population in the PRC, the Group will continue to expand its existing distribution networks and sales outlets from its present coverage to regional cities and rural areas in the PRC.

### *Expansion to international markets*

The Directors consider that the markets in Europe have vast business potential for the Group's biopharmaceutical products. To explore such business potential, the Group will appoint local agents with established marketing networks for distribution of its products in selected countries in Europe. For the European markets, the Group has commenced marketing work in Russia and intends to subsequently develop other European markets.

### *Research and development and production*

The Group intends to further expand its production capacity and research and development capabilities to further strengthen the competitive advantages currently enjoyed by the Group. It is also one of the business objectives of the Group to further develop new products in order to serve the increasing demands in the PRC.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### DIRECTORS

#### Executive Directors

**Mr. Ko Sai Ying, Thomas** (高世英), aged 57, is the Chairman, an executive Director and a founder of the Group. Mr. Ko is responsible for the overall strategic planning and business development of the Group. Mr. Ko holds a bachelor's degree in pharmacy from the Victoria Institute of Colleges in Melbourne, Victoria, Australia in 1968. In 1971, Mr. Ko established Vitapharm Pharmaceutical Pty. Ltd. in Melbourne. The company specialised in the research and development, production and distribution of a range of human and veterinary pharmaceutical products. Mr. Ko was the managing director of the company and was in charge of the research and development activities. The company was voluntarily liquidated in July 2001 owing to the possible conflict of interests with the Group. His special interest is in drug delivery system and immunology. Mr. Ko is currently a member of Pharmaceutical Society of Australia and International Society of Interferon and Cytokine Research.

Under the leadership of Mr. Ko, the Group's research and development team developed, among other products, an enteric immunity stimulant product based on enzymes for prevention and treatment of diarrhea in animals.

In 1992, Mr. Ko completed the development of the first generation interferon based anti-viral oral drug with the indication of alleviating the symptoms of viral hepatitis.

**Mr. Au Yeung Ping Yuen, Terence** (歐陽炳源) aged 50, is the Vice-chairman, an executive Director and a founder of the Group. Mr. Au Yeung is responsible for overseeing the implementation of the corporate strategy on research and development and the production of the Group. Mr. Au Yeung obtained a bachelor's degree in Applied Science from Swinburne Institute of Technology in Melbourne, Victoria, Australia.

During the late 1970s, Mr. Au Yeung was a member of the technical staff of the Department of Pathology at the University of Hong Kong. In the early 1980s, he was the factory manager of Vitapharm Pharmaceutical Pty. Ltd. Since then, he has been involved as a technical consultant to various businesses covering the areas of food processing, printing and engineering. Mr. Au Yeung has accumulated over 20 years of business management experience.

**Mr. Liu Jin, James** (劉津), aged 40, is an executive Director and a founder of the Group. Mr. Liu is responsible for the overall strategic planning on sales and marketing of the Group. Mr. Liu holds a bachelor's degree in mechanical engineering from Chemistry Institute of Shandong in PRC (中國山東化工學院). Mr. Liu has years of experience in production and sales of medical products. In early 1990s, he set up Shandong North-Marigold Medical Co., Ltd., one of the largest and most advanced medical product manufacturing plant in the PRC. Mr. Liu was responsible for overseeing the overall operations.

**Mr. Tao Lung** (陶龍), aged 46, is an executive Director and a founder of the Group. Mr. Tao is responsible for overseeing the administration and finance functions of the Group. Graduated from Chengdu Chinese Medicine Institute (成都中醫學院) of the PRC in 1983 with a bachelor's degree in Chinese medicine. Mr. Tao also holds a Master's degree in Chinese medicine from Chengdu Chinese Medical University (成都中醫藥大學) in 1989. After graduation, Mr. Tao was engaged as a doctor in the affiliated hospital of Chengdu Chinese Medical University, and a medical representative and a consultant of various companies in Hong Kong. Mr. Tao is an instructor of the Chinese Medicine Course of Baptist University and a committee member of the Hong Kong Chinese Medical Society (香港中醫學會).



## DIRECTORS, SENIOR MANAGEMENT AND STAFF

Each of Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao has entered into a service contract with the Company for an initial term of two years commencing from 1 December 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic annual salary set out below. In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 10% of the audited combined profits attributable to the Shareholders (after taxation and minority interests but before extraordinary and exceptional items and the payments of such bonuses) in respect of the financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount of annual salary
Mr. Ko	HK\$720,000
Mr. Au Yeung	HK\$720,000
Mr. Liu	HK\$720,000
Mr. Tao	HK\$720,000

For the three years ended 31 December 2002, the total emoluments paid to the Directors were approximately HK\$1,251,000, HK\$2,419,000 and HK\$3,671,000 respectively.

### Independent non-executive Directors

**Mr. Lee Kwong Yiu** (李廣耀), aged 40, is an independent non-executive Director of the Group. Mr. Lee has been a practicing solicitor in Hong Kong since 1994. Mr. Lee holds professional qualification as a solicitor of the High Court of Hong Kong and an associate of the Chartered Institute of Arbitrators. Mr. Lee is also a member of the advisory committee to Caritas Lok Heep Club. Mr. Lee is the company secretary of Gay Giano International Group Limited and Millennium Sense Holdings Limited, and an independent non-executive director of Sun Hing Vision Group Holdings Limited. Mr. Lee was appointed as an independent non-executive Director in January 2002.

**Mr. Lui Tin Nang** (呂天能), aged 45, is a qualified accountant. Mr. Lui has obtained a Bachelor of Science degree from University of Leeds and a master degree in business administration from University of Bradford in United Kingdom. Mr. Lui is a member of the Hong Kong Society of Accountants, member of the Chartered Institute of Management Accountant and the Institute of Chartered Accountants in England & Wales. Prior to his sole proprietorship, he worked for several professional service companies and private enterprises. He is experienced in accounting, auditing, taxation and corporate financing. He was appointed as an independent non-executive Director in July 2002.

### SENIOR MANAGEMENT

**Mr. Huang Jian Ming** (黃建明), aged 39, is a general manager overseeing the Group's business development in the PRC. He graduated from Luzhou Industrial Chemical College (瀘州化工專科學校) in 1981. Mr. Huang was employed as a management staff of Sichuan Chengdu Fourth Pharmaceutical Plant (四川省成都市第四製藥廠) for 11 years since 1982 and participated in the planning of the construction of Hainan Huapu Pharmaceutical Factory (海南華埔製藥廠). Mr. Huang has accumulated over 15 years of management experience in the pharmaceutical industry. Mr. Huang joined the Group since its establishment in April 1998.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. Lam Kai Cheung** (林啟章), aged 40, is the qualified accountant, the financial controller and the company secretary of the Group. He joined the Group in May 2002 and is responsible for overseeing the financial and the company secretarial functions of the Company. He is experienced in auditing and financial management of private and listed companies. Mr. Lam is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants of United Kingdom.

**Ms. Guo Lin** (郭琳), aged 39, is the manager of the Group's Investment Department and is responsible for its overall investment strategy of the Group. She holds a bachelor degree in Economics from Hunan Finance and Economics Institute (湖南財經學院) in 1984 and a master degree from Zhongnan Industrial University (中南工業大學) in 1993. Ms. Guo has been a lecturer in Hunan Finance and Economics Institute and Zhongnan Industrial University. She also worked as a manager of the investment banking division of Shenzhen Junshan Investment Limited (深圳市軍山投資有限公司) for over 3 years. Ms. Guo joined the Group in June 2001.

**Mr. Shen Song Qing** (沈松青), aged 42, is the marketing manager (China mainland). He graduated from Chengdu Chinese Medicine Institute (成都中醫學院) of the PRC in 1983. He has experience in sales and marketing of drugs for more than 18 years, including working as the sales director of China Chengdu Chinese Pharmaceutical Factory (中國成都市中藥廠) and joined the Group since its establishment in April 1998.

**Mr. Jin Wei** (金璋), aged 30, is the Group's administration manager and is responsible for the general administrative functions of the Group. He graduated from Nantong Industrial College (南通工業學院) in 1994. He has over 4 years of working experience in export trading business. Mr. Jin joined the Group in May 1998.

**Mr. Tony Wai Chiu So** (蘇偉超), aged 64, is the Research and Development Director of Vitapharm Research. Mr. So holds a bachelor's degree of Pharmacy from Monash University. Before joining Vitapharm Research, Mr. So was engaged as a deputy director of Pharmacy Services of Austin Hospital in Australia for 15 years. He was also a senior management member and research fellow of various pharmaceutical companies such as Enzacor Pty. Ltd., Pharma Pacific Pty. Ltd. and Soltec Research Pty. Ltd. in Australia. Mr. So holds professional qualifications such as member of the Pharmaceutical Society of the Victoria, life member of the Society of Hospital Pharmaceutical Chemists of Australia and member of the Australian Society of Cosmetic Chemist. Mr. So joined Vitapharm Research in November 2000.

**Dr. Wong Tuen Yee Elizabeth** (王端兒), aged 49, is the Principal Scientist of Vitapharm Research. She holds a Bachelor of Science (Biology) degree from Chinese University of Hong Kong in 1976 and a doctorate degree in Biochemistry from University of Louis Pasteur, Strasbourg, France (1980). Before joining the Group, Dr. Wong was engaged as a research assistant in the Centre of Neurochemistry of CNRS in France, research fellow of Institute of Neurology in London, research fellow of the Department of Surgery of University of Queensland and Research and Development scientist of CSL Limited in Australia. She is the author and co-author of numerous publications in international scientific journals and she has been awarded with various international and national research grants. Dr. Wong specialises in the development of biological products according to GMP and GLP standards and is experienced in project management and development and implementation of quality systems. Dr. Wong joined Vitapharm Research in September 2000.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. Wu Qing Jiang** (吳慶江), aged 39, is the general manager of Sichuan Pharmaceutical. Mr. Wu holds a bachelor's degree in Chinese medicine from Chengdu Chinese Medical Institute (成都中醫學院) of the PRC. Mr. Wu was engaged as a management staff in charge of the technical operations of Sichuan Jisheng Pharmaceutical Factory (四川省濟生製藥廠) for over eleven years since 1983, manager of Chengdu Tenth Pharmaceutical Factory (成都市製藥廠十廠), deputy general manager of Sichuan Jinhui Pharmaceutical Limited (四川金輝藥業有限公司). He has 17 years of experience in managing production quality control of drugs and is familiar with the regulations regarding management of drugs and development of new drugs. Mr. Wu joined the Group in November 2000.

**Mr. Guo Wei Ping** (郭衛平), aged 44, is the general manager of Wuhan Weiao. He graduated from Luzhou Industrial Chemical College (瀘州化工業專科學校) with a diploma in organic synthetics in 1982 and Huaxi Medical University (華西醫科大學) with a diploma in pharmacy. He worked for Chengdu Fourth Pharmaceutical Factory (成都市第四製藥廠) for almost 16 years since 1982 and the last position he held was deputy technical manager. He joined the Group in October 1998.

**Dr. Zhang Mei** (張梅), aged 35, is the General Manager of Sichuan Research responsible for overseeing the daily operations of Sichuan Research. She is a registered doctor in the PRC and graduated from Sichuan Western Medical College (四川西醫學院) in 1989. Dr. Zhang has 6 years experience in surgery. In 1994, Dr. Zhang was granted a Bachelor degree of Business Administration in Xinan Communication University (西南交通大學). Dr. Zhang joined the Group in March 2001.

**Dr. Zhang Guo Feng** (張國豐), aged 37 is the research fellow of Sichuan Research. Dr. Zhang obtained his Ph.D from China Xiehe Medical University (中國協和醫科大學) in 1994. He was then engaged in the research and development of drugs. Dr. Zhang is also the person-in-charge of the drug bio-chemistry laboratory and the vice president of the 藥物信息室 Drug News Room of Jiangzhong Pharmaceutical Group (江中製藥集團) and the research fellow of the corporate business sector of the research and development centre of Xinan Securities Company Limited 西南證券有限責任公司研究發展中心行業公司部. While working for Jiangzhong Pharmaceutical Group, he was responsible for the research and development of drugs. Dr. Zhang joined the Group in November 2000.

**Mr. Liu Jia Jian** (劉家健), aged 59, is the principal scientist of Sichuan Research. He graduated from the faculty of Chemistry in University of Sichuan. Mr. Liu Jia Jian has been a director of a major antibiotic research institute in Chengdu, Sichuan Province, the PRC since 1974. He is mainly responsible for the research and development work of new drugs and the restructuring of the structure of antibiotics. Mr. Liu is also the mentor of doctorate candidate, a Committee Member of the National New Drug Approval Committee (國家新藥評審委員會), member of the Sichuan provincial political committee (四川省政協委員) and receives a life subsidy from the State Council of PRC by virtue of his expert status in drug research (國務院終身津貼專家). Mr. Liu joined the Group in August 2001.

**Mr. Huang Ze Min** (黃澤民), aged 42, is responsible for co-ordinating sales activities of the Group. He has been selling pharmaceutical products for years with exposure broadly across the PRC and was experienced particularly in the south-western regions.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### AUDIT COMMITTEE

The Company established an audit committee with written terms of reference compliance with the requirements of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises two members, Mr. Lee Kwong Yiu and Mr. Lui Tin Nang, both of them are independent non-executive Directors. Mr. Lui Tin Nang has been appointed as chairman of the audit committee.

### STAFF

As at the Latest Practicable Date, the Group had employed 1,212 staff who were engaged in the following functions:

Function	Australia	PRC	HK and Macao	Total
R&D	5	25	–	30
Production	–	240	–	240
Sales & distribution	1	842	–	843
Administration & finance	3	81	15	99
Total	<u>9</u>	<u>1,188</u>	<u>15</u>	<u>1,212</u>

### Relationship with staff

None of the Group's staff is represented by a labour union or is subject to a collective bargaining agreement, nor has the Group experienced any work disruption during the Track Record Period. The Directors consider that the Group has maintained a good relationship with its staff.

### Compliance with PRC laws and regulations

To the best of the understanding and knowledge of the Directors, all the Company's subsidiaries incorporated in the PRC are in compliance with the relevant PRC laws and regulations in relation to fair labour standards, working conditions and employment contracts.

### PENSION SCHEME

The Group has implemented a defined contribution scheme for its employees in Hong Kong in compliance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (as amended from time to time) which took effect from 1 December 2000. The assets of the scheme are held separately from those of the Group in an independently administered fund. Monthly contributions are made at 5% of each Hong Kong employee's salary or HK\$1,000, whichever is the lower, and are charged to the profit and loss accounts as and when the amounts become payable in accordance with the rules of the scheme.

The Group has also implemented an employees' superannuation fund in accordance with the Superannuation Guarantee (Administration) Act 1992 in Australia. Such fund is a defined contribution fund.

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

All the employees in Sichuan Pharmaceutical, Wuhan Weiao, Sichuan Research and Vital BioTech (Shanghai) are entitled to join the social insurance maintained by the Social Security Bureau (社會保險局). The insurance premium is borne by the relevant company and the employees on a specified proportion laid down under the relevant PRC law. The purpose of the insurance is to provide for the employees' livelihood after they retire.

### **SHARE OPTION SCHEME**

The Share Option Scheme was adopted by the Company on 26 January 2002. The Directors may grant option to the eligible person for subscription of Shares. The limit of the Share Option Scheme is 120,000,000 Shares, representing 10% of the total number of Shares in issue upon the listing of the Shares on GEM. On 21 June 2002, the Directors granted options to subscribe for 30,000,000 Shares, with the exercise price calculated in accordance with the provisions of the Share Option Scheme at HK\$0.39. The closing price of the Shares on the day immediately preceding the grant of options was HK\$0.37. Those grantees can exercise their rights in multiple periods starting from 16 August 2002 to 6 February 2012.

On 28 February 2003, the Directors further granted options to subscribe for 19,800,000 Shares, with the exercise price calculated in accordance with the provisions of the Share Option Scheme at HK\$0.24. The closing price of the Shares on the day immediately preceding the grant of the options was HK\$0.21. The grantees can exercise their rights at any time from 1 March 2003 up to the expiry of the option period on 6 February 2012.

Further details of the options granted under the Share Option Scheme are disclosed in the paragraph headed "Share Option Scheme" in Appendix IV to this document.

The Company has no intention to grant any options under the Share Option Scheme prior to the listing of the Shares on the Main Board upon which the Share Option Scheme will be terminated and replaced by the Proposed Share Option Scheme. Upon the termination of the Share Option Scheme, no further options would be offered pursuant to the Share Option Scheme but the Share Option Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted prior to the termination of the Share Option Scheme. The holders of such options will continue to be entitled to exercise their options in accordance with the provisions of the Share Option Scheme.

With the application of the listing of the Shares on the Main Board, the Company proposes to adopt the Proposed Share Option Scheme at the Extraordinary General Meeting and terminate the Share Option Scheme. A summary of the principal terms of the Proposed Share Option Scheme is set out in the paragraph headed "Proposed Share Option Scheme" in Appendix IV to this document.

## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of members kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly, or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group:

Name	Company/ Name of Group member	Capacity	Number of Shares <i>(Note 1)</i>	Approximate percentage of shareholding
Perfect Develop <i>(Note 2)</i>	Company	Beneficial owner	641,525,370 (L)	50.22%
Mr. Tao <i>(Note 3)</i>	Company	Beneficial owner	108,480,960 (L)	8.49%
		Interest of a controlled corporation	641,525,370 (L)	50.22%
Ms. Li Chun Yi <i>(Note 4)</i>	Company	Interest of spouse	750,006,330 (L)	58.71%

*Notes:*

1. The letter "L" denotes for the person's/entity's long position in the Shares.
2. The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 6% by Mr. Au Yeung and 12% by Mr. Liu respectively. All of Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the Group.
3. Mr. Tao owns in aggregate 49 shares in, representing approximately 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SFO, to be interested in all the Shares in which Perfect Develop is interested, amounting to 641,525,370 Shares. Together with 108,480,960 Shares registered in his own name, Mr. Tao is deemed, by virtue of the SFO, to be interested in, 750,006,330 Shares in aggregate, amounting to approximately 58.71% of the issued share capital of the Company as at the Latest Practicable Date.
4. Ms. Li Chun Yi is the wife of Mr. Tao and is taken to be interested in the Shares in which Mr. Tao is interested by virtue of the SFO.

The Directors are not aware of any arrangement which may at a subsequent date result in a change in control of the Company.

### UNDERTAKINGS

Each of Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung and Perfect Develop has undertaken to the Company, the Sponsor and the Stock Exchange that he/it shall not (a) in the period of six months from the Listing Date, dispose of, and shall procure that the registered holder thereof shall not dispose of, any of those Shares in respect of which he/it is the beneficial owner; and (b) in the period of six months commencing from the date on which period referred to in (a) expires, dispose of or permit the registered holder thereof to dispose of, any of the Shares referred in (a) if immediately following such disposal, Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung and Perfect Develop would cease to be the controlling shareholders of the Company (as defined in the Listing Rules).

## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Each of Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung and Perfect Develop has further undertaken to the Stock Exchange, the Company and the Sponsor that, within the 12 months from the Listing Date, he/it will:

- (i) immediately inform the Company of any pledges or charges of securities of the Company beneficially owned by him/it together with the number of securities so pledged or charged; and
- (ii) immediately inform the Company when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge or charge mentioned above by any of Mr. Tao, Mr. Ko, Mr. Liu, Mr. Au Yeung or Perfect Develop, and disclose such matters by way of a press notice in newspapers as soon as possible in accordance with the requirements of the Listing Rules.

## SHARE CAPITAL

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>50,000,000,000</u>	Shares	<u>500,000,000</u>
<i>Issued share capital:</i>		
<u>1,277,462,169</u>	Shares in issue as at the Latest Practicable Date	<u>12,774,621.69</u>

### General mandate to issue shares

At the Company's annual general meeting held on 11 April 2003, the Directors have been granted a general unconditional mandate to allot, issue and otherwise deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of the resolution; and
- (b) the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority referred to in the paragraph headed "General mandate to repurchase Shares" below.

The Directors need not exercise the authority granted by this mandate to allot, issue or otherwise deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or grant of options under the Share Option Scheme or the Proposed Share Option Scheme or pursuant to the exercise of any such options.

This mandate will remain in effect until:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- the revocation or variation of the authority by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

### General mandate to repurchase Shares

At the Company's annual general meeting held on 11 April 2003, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of the resolution.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules.



## SHARE CAPITAL

This mandate will remain in effect until:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- the revocation or variation of the authority by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

### **Renewal of the general mandates to issue Shares and repurchase Shares**

For the purpose of the Introduction, the Directors propose to seek the approvals of the Shareholders at the Extraordinary General Meeting in respect of the granting to the Directors new general mandates to issue securities and repurchase Shares. The terms of the new general mandates are similar to those of the existing general mandates save that the maximum aggregate nominal amount of Shares that may be issued and repurchased respectively under the new general mandates will be determined based on the aggregate nominal amount of Shares in issue as at the date of the Extraordinary General Meeting instead of the date of the last annual general meeting of the Company held on 11 April 2003.

The Directors do not have any present intention to exercise their power under the existing general mandates prior to the listing of Shares on the Main Board. Please refer to the circular of the Company dated 30 June 2003 for details of the new general mandates.

## FINANCIAL INFORMATION

### TRADING RECORD

The following is a summary of the consolidated results of the Group for the three years ended 31 December 2002 and for the three months ended 31 March 2003. The consolidated results of the Group for the three years ended 31 December 2002 have been extracted from the accountants' report set out in Appendix I to this document and should be read in conjunction with the accountants' report for each of the three financial years ended 31 December 2002. The consolidated results of the Group for the three months ended 31 March 2003 have been extracted from the published unaudited quarterly report for the three months ended 31 March 2003.

	Audited			Unaudited
	Year ended 31 December			Three months ended
	2000	2001	2002	31 March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover ( <i>Note 1</i> )	64,128	122,825	167,969	65,003
Cost of sales	(37,921)	(61,052)	(50,572)	(19,518)
Gross profit	26,207	61,773	117,397	45,485
Other revenues	28	129	439	74
Selling and distribution expenses	(1,452)	(3,157)	(34,609)	(8,306)
Administrative expenses	(5,504)	(13,021)	(24,923)	(16,612)
Other operating expenses (net)	(2,146)	(3,226)	(4,094)	(2,908)
Operating profit	17,133	42,498	54,210	17,733
Finance costs	(1,836)	(3,399)	(4,903)	(1,455)
Profit before taxation	15,297	39,099	49,307	16,278
Taxation	(15)	(60)	(988)	(242)
Profit after taxation	15,282	39,039	48,319	16,036
Minority interests	(743)	(914)	(7,727)	(4,714)
Profit attributable to Shareholders	<u>14,539</u>	<u>38,125</u>	<u>40,592</u>	<u>11,322</u>
Dividends ( <i>Note 2</i> )	<u>–</u>	<u>–</u>	<u>24,273</u>	<u>–</u>
Earnings per Share ( <i>Note 3</i> )				
– basic	<u>1.51 cents</u>	<u>3.97 cents</u>	<u>3.43 cents</u>	<u>0.92 cents</u>
– diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>0.92 cents</u>

## FINANCIAL INFORMATION

### Notes:

- (1) Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes, where applicable, consultancy fee income and licence fee income.
- (2) Dividends comprised an interim dividend of HK\$12,000,000 paid on 18 September 2002 and a final dividend of HK\$12,273,000 paid on 16 May 2003.

Interim dividend of approximately HK\$12,000,000 was settled partly by cash of approximately HK\$3,796,000 and partly by scrip Shares of approximately HK\$8,204,000.

Final dividend of approximately HK\$12,273,000 was settled partly by cash of HK\$2,250,000 and partly by scrip Shares of HK\$10,023,000.

- (3) Basic earnings per Share for the two years ended 31 December 2000 and 2001 are calculated based on the profit attributable to Shareholders of HK\$14,539,000 and HK\$38,125,000 respectively and on an aggregate of 960,000,000 Shares, comprising 3 Shares of HK\$0.10 each issued immediately after incorporation of the Company, 1,818,179 Shares issued upon the Group reorganisation together with 16,363,638 Shares issued as a result of the share split and 941,818,180 Shares issued pursuant to the capitalisation issue for the then Shareholders of the Company upon completion of the Group reorganisation, which were deemed to have been in issue since 1 January 2000. Basic earnings per Share for the year ended 31 December 2002 is calculated based on profit attributable to Shareholders of HK\$40,592,000 and on the weighted average number of 1,183,538,255 Shares in issue during the year. Basic earnings per Share for the three months ended 31 March 2003 is calculated based on profit attributable to Shareholders of HK\$11,322,000 and weighted average of 1,227,347,268 Shares in issue during the period.

There were no dilutive instruments outstanding for the two years ended 31 December 2000 and 2001. As the exercise price of the share options granted during the year ended 31 December 2002 was greater than the average market price of the Share, there was no dilution effect on earnings per Share for the year ended 31 December 2002. Diluted earnings per Share for the three months ended 31 March 2003 is based on the profit attributable to Shareholders of HK\$11,322,000 and 1,233,947,268 Shares which are the average number of 1,227,347,268 Shares in issue plus the weighted average of Shares deemed to be issued at no consideration if all outstanding dilutive options had been exercised during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview of the consolidated results

The Group's primary business is in the research and development, manufacturing, sales and distribution of biopharmaceutical and conventional pharmaceutical products with a focus on down stream value added biotechnology processing system.

Revenue is recognised on the sales of goods and services when the significant risks and rewards of ownership have been transferred to the buyers.

Selling and distribution expenses consist primarily of salaries and commissions paid to the sales staff, advertising expenses, other external marketing related expenses and transportation.

Administrative expenses consist primarily of the salaries of administration staff, Directors' salaries, travelling, business entertainment and rental expenses.

Other operating expenses include principally amortisation of patent and goodwill, consumables, research and development expenses and depreciation.

Depreciation relates primarily to land and buildings, motor vehicles and furniture, fixtures and other equipment which the Group has purchased in connection with its operations. Details of the Group's accounting policies on fixed assets and depreciation are set out in the accountants' report in Appendix I to this document.

## FINANCIAL INFORMATION

Particulars of the Group's are property interest set out in the paragraph headed "Property interest" in this section.

Finance costs primarily represent the interests charged on bank and other loans.

### **Year ended 31 December 2000 compared with year ended 31 December 2001**

#### *Turnover*

The turnover of the Group increased from approximately HK\$64.1 million for the year ended 31 December 2000 to approximately HK\$122.8 million for the year ended 31 December 2001, representing an increase of approximately 91.6%. The increase was attributable to the enhancement of the sales and promotional efforts of the Group on the products, Opin and Osteoform, in the PRC market resulting in increase in popularity and higher market demand of those products.

For Opin, the sales increased from approximately HK\$29.3 million for the year ended 31 December 2000 to approximately HK\$38.4 million for the year ended 31 December 2001, representing an increase of approximately 31.1%. For Osteoform, the sales increased from approximately HK\$32.2 million for the year ended 31 December 2000 to approximately HK\$80.8 million for the year ended 31 December 2001, representing a substantial increase of approximately 150.9%.

Sales of other products decreased from approximately HK\$2.2 million for the year ended 31 December 2000 to approximately HK\$0.7 million for the year ended 31 December 2001 because of completion of a non-recurring sales of spray-on-bandage in 2000.

The Group's consultancy fee income, being the provision of consultancy services in connection with pharmaceutical business, amounted to approximately HK\$0.4 million and HK\$nil for the two years ended 31 December 2000 and 2001 respectively.

The Group recorded a licensing income of approximately HK\$2.8 million for the year ended 31 December 2001 from the provision of technology know-how to an independent pharmaceutical company in the PRC.

#### *Cost of sales*

Cost of sales comprised direct materials, direct labour, other production overheads and sub-contracting charges. Cost of sales increased from approximately HK\$37.9 million for the year ended 31 December 2000 to approximately HK\$61.0 million for the year ended 31 December 2001, representing an increase of approximately 61.0%. The Directors consider that the increase in cost of sales was in line with the growth in turnover.

Direct materials represented a substantial portion, which accounted for approximately 80.7% and 81.8% of the total cost of sales for each of the two years ended 31 December 2001. The Group also sub-contracted the packaging process of Osteoform to an independent third party not connected with the Company, the Directors, the chief executive and the substantial shareholders of the Company or any of its subsidiaries or their respective associates during the two years ended 31 December 2001, which gave rise to a sub-contracting charge of approximately HK\$4.4 million and HK\$9.1 million respectively. In addition, saving on raw material costs was achieved by bulk purchase because of the increase in turnover.

## FINANCIAL INFORMATION

### *Gross profit*

The overall gross profit increased from approximately HK\$26.2 million for the year ended 31 December 2000 to HK\$61.8 million for the year ended 31 December 2001. The overall gross profit margin increased from approximately 40.9% for the year ended 31 December 2000 to approximately 50.3% for the year ended 31 December 2001.

Gross profit margin for Opin and Osteoform increased from approximately 44.8% and 38.6% for the year ended 31 December 2000 to approximately 45.8% and 51.1% for the year ended 31 December 2001 respectively. The gross profit margin of Opin maintained at the similar level whereas that of Osteoform increased considerably. The Directors believe that such increase was attributable to the increase in the selling price of Osteoform and the reduction of average costs of raw materials achieved through bulk purchases.

### *Selling and distribution expenses*

The selling and distribution expenses of the Group increased from approximately HK\$1.5 million for the year ended 31 December 2000 to approximately HK\$3.2 million for the year ended 31 December 2001, representing an increase of approximately 113.3%. The Directors believe that the increase was mainly attributable to the increase in salaries and related expenses as a result of employing 159 additional marketing staff.

### *Administrative expenses*

The administrative expenses consisted mainly of staff's salaries, remuneration paid to the Directors, legal and professional expenses, travelling and rental expenses. The administrative expenses of the Group increased from approximately HK\$5.5 million for the year ended 31 December 2000 to approximately HK\$13.0 million for the year ended 31 December 2001, representing an increase of approximately 136.4%. The Directors consider that such an increase was mainly due to business expansion and increase in the number of marketing staff from 53 to 212, which incurred additional administrative expenses such as staff costs, travelling expenses and rental expenses.

### *Accrued charges and other payables*

The accrued charges and other payables increased from HK\$4,414,000 as at 31 December 2000 to HK\$5,910,000 as at 31 December 2001. The Directors believe that this is mainly attributable to the professional fees in relation to the listing of the Shares on GEM.

### *Other operating expenses*

The other operating expenses consisted mainly of amortisation of intangible assets, depreciation expenses and research and development expenses. The other operating expenses of the Group increased from approximately HK\$2.1 million for the year ended 31 December 2000 to approximately HK\$3.2 million for the year ended 31 December 2001, representing an increase of approximately 52.4%. The Directors consider that such an increase was mainly attributable to the increase of depreciation, amortisation expenses and research and development expenses as the Group expanded its operations.

## FINANCIAL INFORMATION

### *Operating profit*

The operating profit increased from approximately HK\$17.1 million for the year ended 31 December 2000 to approximately HK\$42.5 million for the year ended 31 December 2001, representing an increase of approximately 148.5%. The Directors believe that such increase was mainly attributable to the increase in turnover and improvement in gross profit margin during the year ended 31 December 2001.

### *Finance costs*

The finance costs consisted mainly of the interests expenses on bank and other loans. The finance costs increased from HK\$1.8 million for the year ended 31 December 2000 to HK\$3.4 million for the year ended 31 December 2001, representing an increase of approximately 88.9%. The Directors consider that the increase in finance costs was mainly due to increase in bank borrowings to complement with the increase of the Group's business scale.

### *Net profit*

The net profit of the Group increased from approximately HK\$14.5 million for the year ended 31 December 2000 to approximately HK\$38.1 million for the year ended 31 December 2001, representing an increase of approximately 162.8%. The net profit margin also increased from approximately 22.7% to 31.0%. The increase in the net profit and the net profit margin were mainly due to the fact that the growth in turnover was at a much higher rate than the increase in total operating costs.

## **Year ended 31 December 2001 compared with year ended 31 December 2002**

### *Turnover*

The turnover of the Group increased from approximately HK\$122.8 million for the year ended 31 December 2001 to approximately HK\$168.0 million for the year ended 31 December 2002, representing an increase of approximately 36.8%. The Directors believe such increase was mainly attributable to diligent marketing effort, effective advertising campaign and increase of retail outlets for the Group's products from around 30,000 for the year ended 31 December 2000 to around 40,000 for the year ended 31 December 2002.

For Osteoform, the sales increased from approximately HK\$80.8 million for the year ended 31 December 2001 to approximately HK\$140.0 million for the year ended 31 December 2002, representing an substantial increase of approximately 73.1%. For Opin, the sales decreased from approximately HK\$38.4 million for the year ended 31 December 2001 to approximately HK\$24.4 million for the year ended 31 December 2002, representing a decrease of approximately 36.5%.

The licence fee income of the Group for each of the two years ended 31 December 2002 remained at approximately HK\$2.8 million.

### *Cost of sales*

Cost of sales decreased from approximately HK\$61.0 million for the year ended 31 December 2001 to approximately HK\$50.6 million for the year ended 31 December 2002, representing a decrease of approximately 17.0%. The cost of sales/turnover ratio was approximately 30.1% for the year ended 31 December 2002, which was lower than the approximately 49.7% for the year

## FINANCIAL INFORMATION

ended 31st December 2001. The Directors believe that such decrease was mainly attributable to the reduction of costs of raw material, change of production techniques and lower production cost as a result of shifting the production of Osteoform from a sub-contractor to the Group's Chengdu plant.

### *Gross profit*

The overall gross profit increased from approximately HK\$61.8 million for the year ended 31 December 2001 to approximately HK\$117.4 million for the year ended 31 December 2002. The overall gross profit margin increased from approximately 50.3% for the year ended 31 December 2001 to approximately 69.9% for the year ended 31 December 2002.

Gross profit margin for Opin and Osteoform increased from approximately 45.8% and 51.1% for the year ended 31 December 2001 to approximately 86.7% and 66.3% for the year ended 31 December 2002 respectively. The Directors believe that the increase in gross profit margin of Opin was mainly attributable to the substantial reduction of the costs of its major raw material, interferon, resulting from over supply and statutory price control over biotechnological products, and modification of the Group's production process to adapt to a more economic form of interferon as raw material. In respect of Osteoform, the Directors believe that the increase of gross profit margin was mainly attributable to the increase of selling price through a more efficient distribution arrangement and shifting the production of Osteoform from a sub-contractor to the Group's Chengdu plant during the year 2002.

### *Selling and distribution expenses*

The selling and distribution expenses of the Group increased from approximately HK\$3.2 million for the year ended 31 December 2001 to approximately HK\$34.6 million for the year ended 31 December 2002, representing an increase of approximately 981.3%. The Directors believe that the increase was attributable to the increment of advertising and marketing promotions in the PRC, including prime time television commercials, public transport exterior posters and product gifts, aiming at promoting brand name and increasing market share. In addition, the number of marketing and sales personnel increased from 212 to 397 during the year ended 31 December 2002 which incurred additional selling and distribution expenses to the Group.

### *Administrative expenses*

The administrative expenses of the Group increased from approximately HK\$13.0 million for the year ended 31 December 2001 to approximately HK\$24.9 million for the year ended 31 December 2002, representing an increase of approximately 91.5%. The Directors consider that such increase was mainly due to increase in the number of staff in line with the expansion of the Group's operation. The number of administrative and finance personnel increased from 61 for the year ended 31 December 2001 to 111 for the year ended 31 December 2002.

### *Accrued charges and other payables*

The accrued charges and other payables increased from HK\$5,910,000 as at 31 December 2001 to HK\$10,043,000 as at 31 December 2002. The Directors believe that the substantial increase in accrued charges and other payables is mainly attributable to the expansion of the Group's operation, in particular, commencement of the operation of the GMP compliant plant in Sichuan, the PRC in full and adoption of aggressive marketing and promotion strategies. These resulted in significant increase in commission, accrued salaries and wages and payables for purchase of fixed assets as at 31 December 2002.

## FINANCIAL INFORMATION

### *Other operating expenses*

The other operating expenses consisted mainly of amortisation of intangible assets, depreciation expenses and research and development expenses. The other operating expenses of the Group increased from approximately HK\$3.2 million for the year ended 31 December 2001 to approximately HK\$4.1 million for the year ended 31 December 2002, representing an increase of approximately 28.1%. The Directors consider that such an increase was in line with the expansion of the Group's operations, in particular, research and development and production.

### *Operating profit*

The operating profit increased from approximately HK\$42.5 million for the year ended 31 December 2001 to approximately HK\$54.2 million for the year ended 31 December 2002, representing an increase of approximately 27.5%. The Directors believe that such increase was mainly attributable to the increase in turnover and improvement in gross profit margin during the year ended 31 December 2002.

### *Finance costs*

The finance costs consisted mainly of the interests expenses on bank and other loans. The finance costs increased from HK\$3.4 million for the year ended 31 December 2001 to HK\$4.9 million for the year ended 31 December 2002, representing an increase of approximately 44.1%. The Directors consider that the increase in finance costs was mainly due to increase in short term financing to complement with the expansion of manufacturing and importing activities.

### *Net profit*

The net profit of the Group increased from approximately HK\$38.1 million for the year ended 31 December 2001 to approximately HK\$40.6 million for the year ended 31 December 2002, representing an increase of approximately 6.6%. The net profit margin decreased from approximately 31.0% to 24.2%. The Directors believe that decrease in the profit margin was mainly due to the significant increase of the selling and distribution expenses and administration expenses which outweighed the growth of turnover and gross profit.

## **Three months ended 31 March 2003**

### *Turnover*

For the three months ended 31 March 2003, the Group recorded a turnover of approximately HK\$65.0 million, representing an increase of approximately 184% to three months ended 31 March 2002.

The sales of Osteoform increased from approximately HK\$18.0 million for the three months ended 31 March 2002 to approximately HK\$60.5 million for the three months ended 31 March 2003, representing an increase of approximately 236%. The Directors believe that such increase was mainly attributable to the diligent marketing effort, effective advertising campaign and increase of retail outlets for the products.



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The sales of Opin decreased from approximately HK\$4.5 million for the three months ended 31 March 2002 to approximately HK\$4.0 million for the three months ended 31 March 2003, representing a decrease of approximately 11%. The Directors believe that such decrease was mainly attributable to an increasing number of hospitals in the PRC requiring the pharmaceutical manufacturers to be GMP compliant. Since the existing production line of Opin in Wuhan, the PRC was not GMP compliant and the new GMP compliant plant is still under construction, the Group's position in securing the sales orders of Opin from those hospitals have been weakened.

### *Cost of sales*

Cost of sales increased from approximately HK\$7.5 million for the three months ended 31 March 2002 to approximately HK\$19.5 million for the three months ended 31 March 2003, representing an increase of approximately 160%. The Directors believe that such increase was in line with the increase in the sales of the Group's sales.

### *Gross profit*

The overall gross profit increased from approximately HK\$15.4 million for the three months ended 31 March 2002 to approximately HK\$45.5 million for the three months ended 31 March 2003, representing an increase of approximately 195.5%. The overall gross profit margin increased from approximately 67.4% for the three months ended 31 March 2002 to approximately 70.0% for the three months ended 31 March 2003. The Directors believe that the slight increase in gross margin was mainly attributable to the reduction of the costs of raw materials and modification of the Group's production process.

### *Selling and distribution expenses*

The selling and distribution expenses increased from approximately HK\$1.2 million for the three months ended 31 March 2002 to approximately HK\$8.3 million for the three months ended 31 March 2003, representing an increase of approximately 591.6%. The Directors believe that such increase was mainly attributable to the increase in advertising and marketing promotions in the PRC and expansion of the sales and marketing department of the Group.

### *Administrative expenses*

The administrative expenses increased from approximately HK\$5.0 million for the three months ended 31 March 2002 to approximately HK\$16.6 million for the three months ended 31 March 2003, representing an increase of approximately 232.0%. The Directors believe that such increase was mainly attributable to the increase in the number of staff in line with the expansion of the Group's operation.

### *Other operating expenses*

The other operating expenses increased from approximately HK\$1.1 million for the three months ended 31 March 2002 to approximately HK\$2.9 million for the three months ended 31 March 2003, representing an increase of approximately 163.6%. The Directors believe that such increase was mainly attributable to the expansion of the Group's operation, in particular, research and development.

## FINANCIAL INFORMATION

### *Operating profit*

The operating profit increased from approximately HK\$8.2 million for the three months ended 31 March 2002 to approximately HK\$17.7 million for the three months ended 31 March 2003, representing an increase of approximately 115.9%. The Directors believe that such increase was mainly attributable to the increase in turnover and the improvement in gross profit margin.

### *Finance costs*

The finance costs increased from approximately HK\$0.8 million for the three months ended 31 March 2002 to approximately HK\$1.5 million for the three months ended 31 March 2003, representing an increase of approximately 87.5%. The Directors believe that such increase was mainly attributable to the increase in short term financing for the expansion of the Group's business.

### *Net profit*

The net profit increased from approximately HK\$6.2 million for the three months ended 31 March 2002 to approximately HK\$11.3 million for the three months ended 31 March 2003, representing an increase of approximately 82.2%. The net profit margin decreased from approximately 26.9% for the three months ended 31 March 2002 to approximately 17.4% for the three months ended 31 March 2003. The Directors believe that such decrease was mainly attributable to the significant increase in the selling and distribution expenses and administration expansion due to rapid expansion of the Group's operations despite of the growth in the Group's turnover and gross profit.

## **Financial ratios**

### *Liquidity ratio*

The current ratio (current assets/current liabilities) for the three years ended 31 December 2002 amounted to approximately 0.91, 1.52 and 2.00 respectively, and quick ratio (unpledged cash and accounts receivable /current liabilities) for the same period amounted to approximately 0.78, 0.74 and 1.36 respectively. The improvement in both current and quick ratios of the Group during the three years ended 31 December 2002 were mainly attributable to the improvement of sales and results performance of the Group which has generated more current assets. In addition, the Group has received net proceeds of approximately HK\$96 million from the Placing in February 2002 which has substantially improved the current and quick ratios.

### *Capital adequacy ratio*

The gearing ratio (long term bank loans/shareholders' equity) for the three years ended 31 December 2002 amounted to approximately 0%, 23% and 5% respectively, and debt to equity ratio (total bank loans and other loans/shareholders' equity) for the same period amounted to approximately 170%, 78% and 39% respectively. The improvement of both gearing and debt to equity ratios of the Group during the three years ended 31 December 2002 were mainly attributable to the improvement of sales and results performance of the Group which has generated more funds to reduce bank debts. In addition, the Group has received net proceeds of approximately HK\$96 million from the Placing in February 2002 which has substantially improved both ratios.

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### *Return on equity ratio*

<b>For the year ended 31 December</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit after taxation	14,539	38,125	40,592
Shareholders' equity	15,750	53,994	176,559
Return on equity ratio	92%	71%	23%

The return on equity ratio in 2001 dropped to 71% mainly because profit after taxation for the year increased from approximately HK\$14.5 million (year 2000) to approximately to HK\$38.1 million which had widened the shareholders equity base. The return on equity ratio in 2002 dropped to 23% mainly because that the shareholders equity base was further strengthened by profit after taxation of approximately HK\$40.6 million and the placement of 240 million Shares at HK\$0.45 each in February 2002.

### **GOVERNMENT GRANTS AND SUBSIDIES**

During the three years ended 31 December 2002, the Group received various government grants and subsidies which were grouped under "Other operating expenses (net)" in the consolidated profit and loss accounts of the Company as stated in the accountants' report in Appendix I to this document. Details of government grants and subsidies credited to the consolidated results of the Company during the Track Record Period are as follows:

	<b>Year ended 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Vitapharm Research – subsidy on research	16	54	–
Wuhan Weiao – subsidy on part of the interest costs	–	397	943
Sichuan Pharmaceutical – subsidy on part of the interest costs	–	–	898
	<u>16</u>	<u>451</u>	<u>1,841</u>

In addition to the above, the Group received a government grant of HK\$594,000 which was credited to the fixed assets in the year ended 31 December 2002.

The Directors believe that the increase in government grants and subsidies was mainly attributable to the following reasons:

- (i) The local government has subsidised part of the interest costs charged to profit and loss account of the company according to the local government's policy of supporting technologically advanced company; and
- (ii) for Sichuan Pharmaceutical, the local government has subsidised part of the interest costs as a support to local technologically advanced companies.

## FINANCIAL INFORMATION

### TAX

For the two years ended 31 December 2000 and 2001, Hong Kong profits tax has been provided for Yugofoil. The Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for these two years. No Hong Kong profits tax has been provided for the year ended 31 December 2002 as there was no estimated assessable profit.

For the two years ended 31 December 2000 and 2001, Beshabar (HK) did not derive any Hong Kong-sourced profit since its purchase contract was effected in the US and the products were sold through a network of independent PRC agents who had the full authority to negotiate and conclude contracts with the customers in the PRC on Beshabar (HK)'s behalf. As such, Beshabar (HK) was not subject to Hong Kong profits tax in 2000 and 2001.

In addition, since the Group is only a purchaser of raw material exported from the US and does not carry out any sales activities or has an office in the US, the Directors believe that the Group is not subject to any US tax for the three years ended 31 December 2002.

Beshabar (HK) was also not subject to any PRC enterprise income tax for the two years ended 31 December 2000 and 2001 since it did not have a permanent establishment in the PRC pursuant to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation of Income. The reason was that Beshabar (HK) sold its products through a network of independent agents in the PRC who also performed similar agency services to other parties in their ordinary course of business and these independent agents had the full authority to determine the final sale price to the PRC customers and operate their business independently.

In accordance with the approval from the PRC tax authorities, Wuhan Weiao and Sichuan Pharmaceutical are entitled to two years exemption of the PRC enterprise income tax starting from the first profit-making year and then 50% reduction in the subsequent three years. Wuhan Weiao started the first profit-making year in 2000 and accordingly, it was exempted from the PRC enterprise income tax for the years 2000 and 2001. It was in the first year of 50% reduction on enterprise income tax in 2002. Sichuan Pharmaceutical started the first profit-making year in 2002 and accordingly, it was exempted from the PRC enterprise income tax in 2002.

Beshabar (Macao) is incorporated as an offshore commercial service company under Macao laws and its profit is exempted from income tax, industrial tax and stamp duties. Beshabar (Macao) is also not subject to any Hong Kong profits tax and PRC enterprise income tax.

No Australian income tax has been provided for Vitapharm Research and Darsawye as they had no estimated assessable profit during the Track Record Period.

### DIVIDENDS

For the Track Record Period, the Company paid an interim dividend for the year ended 31 December 2002 of 1 cent per Share to the Shareholders on 18 September 2002, which amounted to approximately HK\$12,000,000. On 28 February 2003, the Company proposed 1 cent per Share as final dividend which amounted to approximately HK\$12,273,000 which was paid on 16 May 2003.

## FINANCIAL INFORMATION

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Indebtedness

As at 30 April 2003, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately HK\$94.5 million, comprising long term bank loans of approximately HK\$12.3 million, short term bank loans of approximately HK\$63.9 million, trust receipt loans of approximately HK\$3.4 million, bills payable of approximately HK\$14.0 million and other loan of approximately HK\$0.9 million.

Long term bank loans and short term bank loans of HK\$12.3 million and HK\$3.9 million respectively were secured by certain fixed assets of the Group. Trust receipt loans and bills payable totalling of approximately HK\$17.4 million were secured by certain bank balances and cash of the Group.

#### Contingent liabilities

As at 30 April 2003, the Group had bills of exchange discounted with recourse of approximately HK\$37.7 million and the Group did not have any other significant contingent liabilities.

#### Disclaimer

Save as disclosed above, none of the companies in the Group had outstanding at the close of business on 30 April 2003 any mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, hire purchase or other finance lease commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has been no material change in the indebtedness or contingent liabilities of the Group since 30 April 2003.

#### Net current assets

As at 30 April 2003, being the latest practicable date for the purpose of the disclosure of balance sheet items, the Group had net current assets of approximately HK\$89.3 million. The current assets comprised inventories of approximately HK\$27.6 million, receivables and prepayments of approximately HK\$90.8 million and bank balances and cash of approximately HK\$77.5 million. The current liabilities comprised trade and other payables of approximately HK\$20.9 million, value-added tax payable of approximately HK\$0.5 million, tax payable of approximately HK\$0.2 million, current portion of long term bank loans of approximately HK\$2.8 million, short term bank loans of approximately HK\$63.9 million, trust receipt loans of approximately HK\$3.4 million, bills payable of approximately HK\$14.0 million and other loan of approximately HK\$0.9 million.

#### Financial resources

At the close of business on 30 April 2003, the Group had total bank balances and cash of approximately HK\$77.5 million. Bank balances and cash included deposits of approximately HK\$8.0 million pledged as collateral for the trust receipt loans, bills payable and credit facility granted by banks. The Company intends to finance the Group's future operations and capital expenditures and other capital requirements with internally generated resources, existing bank balances and cash available and banking facilities available.

## FINANCIAL INFORMATION

### **Foreign exchange**

The Group earns revenue and incurs costs and expenses mainly in RMB, HK\$, US\$ and AUD. After listing of its Shares on the Main Board, the Company's accounts will be stated in HK dollars and the payment of dividend will also be in HK dollars. As at the date of this document, there is no forecast or plan in relation to the distribution of dividends. However, taking into account the Group's operational and capital requirements and the balanced portfolio of assets and liabilities denominated in the aforesaid currencies, the Directors do not consider the Group will be subject to exchange rate risks in the event of the devaluation of RMB or fluctuation of the exchange rate of AUD.

### **Capital commitments**

As at 30 April 2003, the Group had total capital commitments, including commitments authorised but not contracted for and commitments contracted but not provided for, in respect of construction in progress and other fixed assets of approximately HK\$47.6 million.

### **Working capital**

Taking into account the internal generated funds and the available banking facilities of the Group, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

## **PROPERTY INTEREST**

### **Property interest held for owner-occupation by the Group in Australia**

The Group owns a warehouse building with part of it containing a 2-level office located at 20 Kingsley Close, Rowville, Victoria, Australia with a total building area of approximately 940 sq.m.. The property is occupied by the Group for research and development purposes.

### **Property interest held for owner-occupation by the Group in the PRC**

The Group owns a factory complex located at No. 328 South Section of Xiang Yang Road, Liu Cheng Town, Wenjiang County, Chengdu City, Sichuan Province, the PRC with a total gross floor area of approximately 8,103.93 sq.m.. The property comprises a security room, a research and development building, two production workshops, an electric plant room, a plant and machinery maintenance room and a boiler's room. The property is currently occupied by the Group for industrial and ancillary office purposes.

### **Property interest held for development by the Group in the PRC**

The Group holds a development project located at Town South Economic Area, No. 328 Xiang Yang Road, Liu Cheng Town, Wenjiang County, Chengdu City, Sichuan Province, the PRC. A composite building with a gross floor area of 1,664 sq.m. is being developed and constructed by Sichuan Pharmaceutical. As at 30 April 2003, the construction works of the building is completed and the building is undergoing internal decoration.

## FINANCIAL INFORMATION

The Group holds another development project located at Town South Economic Area, No. 330 Xiang Yang Road, Liu Cheng Town, Wenjiang County, Chengdu City, Sichuan Province, the PRC. A research and development building with a gross floor area of 3,125 sq.m. is being developed and constructed by Sichuan Pharmaceutical on the property. The building is about 55% completed as at 30 April 2003.

The Group also holds a development project located at Wuhan University Science Park, Donghu Hi-tech Development District, Wuhan City, Hubei Province, the PRC. A factory complex is being developed by Wuhan Weiao under two phases. Phase I comprises four buildings including a production workshop, an office complex, a power workshop and a staff training center and canteen with a total gross floor area of approximately 13,692 sq.m. whereas Phase II is proposed to comprise two buildings including a genetic engineering laboratory and an animal house and a production workshop. Phase I is about 75% completed whereas the construction works on Phase II have not commenced as at 30 April 2003.

### **Property interest rented/licenced by the Group in Hong Kong**

The Group rents an office premises located at 18th Floor, CRE Building, No. 303 Hennessy Road, Wanchai with a gross floor area of approximately 325.16 sq.m.. The property is currently used by the Group as the head office and principal place of business in Hong Kong.

The Group also licenses an apartment located at Flat B, 11th Floor, Century Court, No. 239 Jaffe Road, Wanchai, Hong Kong with a gross floor area of approximately 55.74 sq.m.. The property is currently used by the Group as Director's quarter.

The Group rents a residential unit located at Flat C, 15th Floor, Begonia Mansion, Taikoo Shing, Hong Kong with a gross floor area of approximately 74.32 sq.m.. The property is currently used by the Group as the Director's quarter.

### **Property interest rented by the Group in Macao**

The Group rents an office unit located at Unit E-93, 8th Floor, Hin Lei commercial Centre, Nos. 16F to 16L, Domingo Street, Macao with a saleable area of approximately 18.5 sq.m.. The property is currently occupied by the Group for office purposes.

### **Property interest rented by the Group in the PRC**

The Group rents a number of properties located in various provinces in the PRC which are used as factory, liaison offices or staff dormitories.

### **Property valuation**

The property interest as at 30 April 2003 have been valued by BMI Appraisals Limited, an independent property valuer, at an aggregate value of HK\$69,190,000. The text of a letter, a summary of values and valuation certificates from BMI Appraisals Limited are set out in Appendix II to this document.

## FINANCIAL INFORMATION

### DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands and articles of association of the Company, share premium of the Company is distributable to the Shareholders. At 30 April 2003, the Company's reserves available for distribution to Shareholders comprising share premium account and retained profits amounted to HK\$154,836,000.

### ADJUSTED NET TANGIBLE ASSETS

The following is a pro forma statement of adjusted net tangible assets of the Group which is based on the consolidated net assets of the Group as at 31 December 2002, as shown in the accountants' report set out in Appendix I to this document, and adjusted as described follows:

	<i>HK\$'000</i>
Consolidated net assets of the Group as at 31 December 2002	176,559
<i>Add:</i> Unaudited profit after taxation and minority interests of the Group for the four months ended 30 April 2003 based on its unaudited consolidated management accounts	14,066
<i>Less:</i> Exchange differences arising on translation of the accounts of foreign subsidiaries for the four months ended 30 April 2003	(211)
<i>Less:</i> Intangible assets of the Group as at 30 April 2003	(7,924)
<i>Less:</i> Final dividend for the year ended 31 December 2002 paid in cash ( <i>Note 1</i> )	(2,250)
Adjusted net tangible assets of the Group	180,240
Adjusted net tangible asset value per Share of the Group ( <i>Note 2</i> )	14.11 cents

*Notes:*

1. At a meeting held on 28 February 2003, the Directors declared a final dividend of 1 cent per Share, amounted to approximately HK\$12,273,000, for the year ended 31 December 2002 ("2002 Final Dividend"). On 16 May 2003, the 2002 Final Dividend was partly settled by Scrip shares amounting to approximately HK\$10,023,000 and partly settled by cash amounting to approximately HK\$2,250,000.
2. The adjusted net tangible asset value per Share of the Group is based on a total of 1,277,462,169 Shares in issue immediately following the Introduction, but it takes no account of any Shares which may be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them for the allotment and issue or repurchase of Shares.
3. The surplus of approximately HK\$5,000,000 and the additional annual depreciation of approximately HK\$112,000 (with a 10% scrap value) arising from revaluation of the Group's properties will not be incorporated into the Group's accounts for the year ending 31 December 2003. The texts of the letter, summary of valuations and valuation certificates issued by BMI Appraisals Limited in respect of such valuations are set out in the "Property valuation report" set out in Appendix II to this document.



## **FINANCIAL INFORMATION**

### **DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES**

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that since 31 December 2002, being the date to which the latest audited financial statements of the Group were made up, there has been no material adverse change in the financial or trading position of the Company or any of its subsidiaries.

### **DIVIDEND POLICY**

There is no assurance that a dividend will be made in the future and the past dividend payment history should not be used as a reference or basis to determine the amount of dividend in the future. The amount of dividend that may be declared in the future will depend on, among other things, the Company's operating results, financial positions, cashflows, operating and capital requirements. The Directors expect that interim and final dividend, if any, will be paid in or around October and May each year respectively, and in the event that dividends will be proposed and declared in any financial year, the total dividends would represent approximately one-third of the profit after taxation and minority interests for that particular year. The Directors will consider from time to time to propose any scrip dividend to enable the Shareholders to elect for scrip Shares, cash or partly in scrip Shares and partly in cash.

*The following is the text of a report prepared for the purpose of inclusion in this document received from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong*



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30 June 2003

The Directors  
Vital BioTech Holdings Limited

Dear Sirs

We set out below our report on the financial information relating to Vital BioTech Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2000, 2001 and 2002 (the "Relevant Periods") for inclusion in the document of the Company dated 30 June 2003 (the "Introduction Document") in connection with the listing by way of introduction of the entire issued share capital of the Company on the main board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 30 May 2001 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "Group Reorganisation") which was completed on 26 January 2002, the Company became the holding company of the then subsidiaries comprising the Group, details of which are set out in section VI below. The Company's shares have been listed on the Stock Exchange since 7 February 2002. The Company has proposed to withdraw its listing on GEM so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

No audited accounts have been prepared by subsidiaries incorporated in the British Virgin Islands ("BVI") as indicated in section VI below since their respective dates of incorporation or dates of effective acquisition by the Group. We have, however, reviewed the management accounts or, where appropriate, major transactions of these companies since their respective dates of incorporation or dates of effective acquisition by the Group.

We acted as auditors of the Company, the subsidiaries incorporated either in Hong Kong, Macao, or the BVI for the Relevant Periods or since their respective dates of incorporation, where this is a shorter period, as indicated in section VI below.

PricewaterhouseCoopers in Melbourne, Australia, acted as auditors of the subsidiaries incorporated in Australia for the Relevant Periods or since the date of incorporation, where this is a shorter period, as indicated in section VI below, except for the accounts of Vitapharm Research Pty Ltd for the year ended 31 December 2000 which were audited by William Buck, Chartered Accountants.

For those subsidiaries established in the People's Republic of China (the "PRC"), the accounts of these subsidiaries for the Relevant Periods or since the date of establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations in the PRC and were audited by PRC auditors, details of which are set out in section VI note (g) below.

For the purpose of this report, we have performed independent audits of the accounts of the subsidiaries established in the PRC for the Relevant Periods and of the accounts of Vitapharm Research Pty. Ltd. for the year ended 31 December 2000 in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (the "HKSA").

We have examined the audited accounts or the management accounts, which have been independently reviewed or audited by us as stated above, of the companies comprising the Group for the two years ended 31 December 2000 and 2001 (or from their respective dates of incorporation/establishment or dates of effective acquisition by the Group to 31 December 2001, where this is a shorter period), and the audited consolidated accounts of the Company for the year ended 31 December 2002. Our examination was made in accordance with the Auditing Guideline, "Prospectuses and the Reporting Accountant", issued by the HKSA.

The consolidated financial information as set out in section I to VII below ("Consolidated Financial Information") of the Group has been prepared based on the audited accounts or the management accounts, which have been independently reviewed or audited by us as stated above, of all companies comprising the Group, and the audited consolidated accounts of the Company, on the basis set out in section V note 1 below, after making such adjustments as are appropriate. The directors of the respective companies, at the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company (the "Directors") are responsible for the Consolidated Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Consolidated Financial Information and to report our opinion to you.

In our opinion, the Consolidated Financial Information, for the purpose of this report, and prepared on the basis set out in section V note 1 below, gives a true and fair view of the state of affairs of the Company as at 31 December 2001 and 2002 and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods and of the consolidated state of affairs of the Group as at 31 December 2000, 2001 and 2002.

## I. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	<i>Section V Note</i>	<b>Year ended 31 December</b>		
		<b>2000</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Turnover	3	64,128	122,825	167,969
Cost of sales		<u>(37,921)</u>	<u>(61,052)</u>	<u>(50,572)</u>
Gross profit		26,207	61,773	117,397
Other revenues	3	28	129	439
Selling and distribution expenses		(1,452)	(3,157)	(34,609)
Administrative expenses		(5,504)	(13,021)	(24,923)
Other operating expenses (net)		<u>(2,146)</u>	<u>(3,226)</u>	<u>(4,094)</u>
Operating profit	4	17,133	42,498	54,210
Finance costs	5	<u>(1,836)</u>	<u>(3,399)</u>	<u>(4,903)</u>
Profit before taxation		15,297	39,099	49,307
Taxation	6	<u>(15)</u>	<u>(60)</u>	<u>(988)</u>
Profit after taxation		15,282	39,039	48,319
Minority interests		<u>(743)</u>	<u>(914)</u>	<u>(7,727)</u>
Profit attributable to shareholders	28	<u>14,539</u>	<u>38,125</u>	<u>40,592</u>
Dividends	7	<u>–</u>	<u>–</u>	<u>24,273</u>
Earnings per share	8			
Basic		<u>1.51 cents</u>	<u>3.97 cents</u>	<u>3.43 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## II. CONSOLIDATED BALANCE SHEETS AND BALANCE SHEETS

## (a) Consolidated Balance Sheets

	Section V Note	As at 31 December		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Non-current assets				
Intangible assets	12	8,963	8,712	8,144
Fixed assets	13	14,174	36,548	101,775
Investment securities	15	–	–	3,900
		<u>23,137</u>	<u>45,260</u>	<u>113,819</u>
Current assets				
Inventories	16	3,466	3,791	21,933
Receivables and prepayments	17	45,983	51,680	79,969
Other investment	19	–	–	94
Bank balances and cash	20			
– pledged		334	7,935	7,983
– unpledged		4,860	6,460	57,976
		<u>54,643</u>	<u>69,866</u>	<u>167,955</u>
Current liabilities				
Trade and other payables	21	18,862	14,663	19,572
Amounts due to minority shareholders of subsidiaries	22	6,797	320	98
Amounts due to Directors	23	3,570	200	–
Value added tax payable		4,016	1,268	4,662
Tax payable		15	75	411
Current portion of long term liabilities	26	–	1,981	2,867
Bank loans and overdrafts	24	20,826	22,831	53,715
Other loans	25	6,009	4,751	2,830
		<u>60,095</u>	<u>46,089</u>	<u>84,155</u>
Net current (liabilities)/assets		<u>(5,452)</u>	<u>23,777</u>	<u>83,800</u>
Total assets less current liabilities		<u>17,685</u>	<u>69,037</u>	<u>197,619</u>
Representing:				
Share capital	27	182	182	12,273
Reserves	28	15,568	53,812	152,013
Proposed dividend	28	–	–	12,273
Shareholders' funds		15,750	53,994	176,559
Minority interests		1,935	2,430	11,532
Non-current liabilities				
Long term liabilities	26	–	12,613	9,528
		<u>17,685</u>	<u>69,037</u>	<u>197,619</u>

## (b) Balance Sheets

	<i>Section V Note</i>	<b>As at 31 December</b>	
		<b>2001</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Non-current assets			
Fixed assets		–	73
Subsidiaries	14	–	140,935
Investment securities	15	–	3,900
		<u>–</u>	<u>144,908</u>
		-----	-----
Current assets			
Prepayments	17	–	5,818
Amount due from a related company	18	1,900	–
Bank balances and cash		2	11,423
		<u>1,902</u>	<u>17,241</u>
		-----	-----
Current liabilities			
Other payables	21	54	769
Amount due to a related company	18	42	–
Amounts due to Directors	23	2,100	–
		<u>2,196</u>	<u>769</u>
		-----	-----
Net current (liabilities)/assets		<u>(294)</u>	<u>16,472</u>
		-----	-----
Total assets less current liabilities		<u>(294)</u>	<u>161,380</u>
		-----	-----
Representing:			
Share capital	27	–	12,273
Reserves	28	(294)	136,834
Proposed dividend	28	–	12,273
		<u>–</u>	<u>12,273</u>
Shareholders' (deficit)/funds		<u>(294)</u>	<u>161,380</u>
		-----	-----

The balance sheet as at 31 December 2000 is not presented as the Company was incorporated on 30 May 2001.

## III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<i>Section V Note</i>	<b>Year ended 31 December</b>		
		<b>2000</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Shareholders' equity at beginning of year		1,211	15,750	53,994
Exchange differences arising on translation of the accounts of foreign subsidiaries not recognised in the consolidated profit and loss accounts	28	–	119	(89)
Issue of shares	27, 28	–	–	108,000
Share issue expenses	28	–	–	(22,142)
Profit for the year	28	14,539	38,125	40,592
Dividends	28	–	–	(12,000)
Issue of shares for scrip dividends	27, 28	–	–	8,204
Shareholders' equity at end of year		<u>15,750</u>	<u>53,994</u>	<u>176,559</u>

## IV. CONSOLIDATED CASH FLOW STATEMENTS

	Section V Note	Year ended 31 December		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Cash flows from operating activities				
Cash generated from operations	29(a)	12,004	28,208	20,359
Hong Kong profits tax paid		–	–	(15)
China mainland taxation paid		–	–	(637)
Net cash from operating activities		<u>12,004</u>	<u>28,208</u>	<u>19,707</u>
Cash flows from investing activities				
Amounts paid for registration of certain patents		–	–	(505)
Purchase of fixed assets		(9,626)	(22,774)	(70,504)
Government grants and subsidies received		–	–	594
Proceeds from sale of fixed assets		–	40	613
Purchase of a subsidiary, net of cash acquired	29(c)	63	–	–
Purchase of investment securities		–	–	(3,900)
Purchase of other investment		–	–	(94)
Purchase of additional equity interest in a subsidiary	29(e)	–	(2,502)	–
Interest received		28	46	348
Development costs paid		–	(462)	–
Increase in pledged bank balances		(334)	(7,601)	(48)
Net cash used in investing activities		<u>(9,869)</u>	<u>(33,253)</u>	<u>(73,496)</u>
Cash flows from financing activities				
Issue of shares	29(b)	–	–	108,000
Share issue expenses		–	–	(22,142)
Dividends paid		–	–	(3,796)
Draw down of short term bank loans		–	3,386	50,000
Repayment of short term bank loans		–	(2,075)	(18,585)
Net draw down/(repayment) of trust receipt loans		3,552	(1,103)	1,266
Draw down of other loans		–	823	–
Repayment of other loans		–	(1,900)	(1,921)
Draw down of long term bank loans		–	14,338	–
Repayment of long term bank loans		–	(19)	(1,924)
Capital element of finance lease rental payments		–	(23)	(275)
Interest element of finance lease rental payments		–	(14)	(67)
Finance costs paid		(1,739)	(3,990)	(5,011)
Repayment of loan from a minority shareholder of a subsidiary	22	–	(4,575)	–
Capital contribution from a minority shareholder of a subsidiary		–	–	1,557
Net cash from financing activities		<u>1,813</u>	<u>4,848</u>	<u>107,102</u>
Net increase/(decrease) in cash and cash equivalents				
Cash and cash equivalents at beginning of year		912	4,860	4,663
Cash and cash equivalents at end of year	29(g)	<u>4,860</u>	<u>4,663</u>	<u>57,976</u>



**V. NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION****1. Basis of preparation**

Following completion of the Group Reorganisation on 26 January 2002, the Company became the holding company of the subsidiaries, details of which are set out in section VI below. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the Consolidated Financial Information has been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group following the Group Reorganisation throughout the Relevant Periods, or since their respective dates of incorporation/establishment or dates of effective acquisition by the Group, where this is a shorter period.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

**2. Principal accounting policies**

The financial information is prepared under the historical cost convention except that other investments are stated at fair value. The principal accounting policies adopted in the preparation of the financial information are set out below. These policies conform with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA.

*(a) Subsidiaries*

A subsidiary is an entity in which the Company has the power to exercise control governing the financial and operating policies of the company.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision. The results of subsidiaries are accounted for by the Company on the basis of dividends income.

*(b) Fixed assets**(i) Construction in progress*

Construction in progress comprises land use rights and buildings on which construction work has not been completed. Construction in progress is carried at cost which includes cost of acquisition of land use rights, development and construction expenditure incurred, interest and other direct costs attributable to the development less any provision for impairment. On completion, the construction in progress is transferred to appropriate categories of other fixed assets.

## (ii) Other fixed assets

Freehold land is stated at cost less provision for impairment. Other fixed assets, comprising land use rights, buildings, leasehold improvements, plant and machinery, motor vehicles and furniture, fixtures and office equipment, are stated at cost less accumulated amortisation and depreciation and provision for impairment.

## (iii) Depreciation

No depreciation is provided for construction in progress and freehold land.

Land use rights are amortised over the unexpired period of rights granted on a straight line basis.

Other fixed assets are depreciated at rates sufficient to write off their cost less provision for impairment losses over their estimated useful lives to their respective residual values estimated by the Directors on a straight line basis. The principal annual rates are summarised as follows:

Buildings	2.5%
Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	6.67 to 20%
Motor vehicles	20%
Furniture and fixtures and office equipment	10 to 27%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

## (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, the carrying amounts of the assets are written down to their estimated recoverable amounts and are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

## (c) Leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

(i) Assets acquired under finance leases

Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as liabilities. Each lease payment is apportioned between finance charges and a reduction of the lease obligations based on the implicit interest rate in the relevant leases.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Assets held for use under operating leases

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(b)(iii) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(1) below.

(iii) Operating lease charges

Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(d) *Intangible assets*

(i) Goodwill and negative goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition is included in intangible assets and is amortised using the straight line method over its estimated useful life, which is generally ten to thirteen years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

## (ii) Patents

Cost incurred on the acquisition of patents are capitalised in the balance sheet and are amortised by equal annual instalments over the estimated useful life of fifteen years. Patents are not revalued as there is no active market for these assets.

## (iii) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred, except where it is expected that the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised and included in intangible assets and are amortised on a straight line basis over a period of not more than eight years to reflect the pattern in which the related economic benefits are recognised. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

## (iv) Impairment of intangible assets

The carrying amount of each intangible asset is reviewed when there is an indication that an asset is impaired. When the carrying amount of an asset exceeds its recoverable amount, the carrying amount is written down to its estimated recoverable amount and is recognised in the profit and loss account.

*(e) Investments in securities*

## (i) Investment securities

Investment securities which are intended to be held on a continuing basis are stated at cost less provision for impairment.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities is reduced to its fair value. The impairment is recognised as an expense in the profit and loss account. This impairment is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

## (ii) Other investments

Other investments, which are acquired principally for the purpose of generating a profit from short term fluctuation in price, are carried at fair values. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair values of other investments are recognised in the

profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) *Inventories*

Inventories mainly represent pharmaceuticals products, which comprise stocks and work in progress, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) *Accounts receivable*

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, time deposits and bank overdrafts.

(i) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(k) *Deferred taxation*

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(l) *Revenue recognition*

Sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Consultancy fee income is recognised when the services are rendered.

Licence fee income for granting a right to use of the Group's technology is recognised when the Group's obligations to perform are completed in accordance with the applicable performance requirements and contractual terms.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight line basis over the period of the lease terms.

(m) *Employee benefits*

(i) Retirement benefit costs

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to qualified employees. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate. Contributions under defined contribution schemes are charged to the profit and loss account in the year to which the contributions relate.

Pursuant to the relevant regulations of the municipal governments in China mainland, the subsidiaries of the Group in this country participate in respective government retirement benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in China mainland. The municipal governments of China mainland are responsible for the entire pension obligations payable to

the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the profit and loss account in the year to which the contributions relate.

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Equity compensation benefits

No compensation cost is recognised in the profit and loss account in connection with share options granted to Directors and employees.

(n) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) *Pre-operating costs*

Pre-operating costs are expensed in the year in which they are incurred.

(p) *Government grants and subsidies*

Government grants and subsidies that become receivable as compensation for expenses or losses already incurred or for the purpose of providing financial assistance to the Group with no future related costs are recognised as income of the year in which they become receivable.

Government grants and subsidies are initially recognised as deferred income when there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants and subsidies will be received. Such grants and subsidies relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate.

Government grants and subsidies relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grants and subsidies are recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

The monetary assets received or receivable under the government grants are recorded as assets of the Group at its fair value at date of the grants and subsidies.

*(q) Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date whilst their profit and loss accounts expressed in foreign currencies are translated at average exchange rates during the year. Exchange differences are dealt with as a movement in reserves.

*(r) Related parties*

For the purpose of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.



### 3. Revenue, turnover and segment information

The Group is principally engaged in the trading and manufacturing of pharmaceutical products, the provision of consultancy services in connection with pharmaceutical business and licencing for granting a right to use the Group's technology.

Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes, where applicable, consultancy fee income and licence fee income. The amounts of each significant category of revenues for the Relevant Periods are as follows:

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Turnover			
Sale of goods	63,725	119,995	165,139
Consultancy fee income	403	–	–
Licence fee income	–	2,830	2,830
	<u>64,128</u>	<u>122,825</u>	<u>167,969</u>
Other revenues			
Interest income	28	46	348
Rental income from hire of plant and machinery	–	83	91
	<u>28</u>	<u>129</u>	<u>439</u>
Total revenues	<u><u>64,156</u></u>	<u><u>122,954</u></u>	<u><u>168,408</u></u>

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the trading and manufacturing of pharmaceutical products. The Group's principal market is in China mainland.

Neither the business segments of the consultancy services and the licencing of the Group's technology nor the geographical segment in other country are of a sufficient size to be reported separately.

## 4. Operating profit

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:			
Crediting:			
Amortisation of negative goodwill	–	–	24
Government grants and subsidies	<u>16</u>	<u>451</u>	<u>1,841</u>
Charging:			
Amortisation of intangible assets			
– goodwill	503	644	644
– patents	189	189	213
– development costs	–	29	58
Auditors' remuneration	104	1,082	808
Depreciation and amortisation of fixed assets			
– leased assets under finance leases	–	33	101
– owned fixed assets held for use under operating leases	–	37	31
– other owned fixed assets	669	1,062	4,282
Loss on disposal of fixed assets	–	77	77
Operating lease rental expense on land and buildings	712	813	1,893
Provision for trade receivables	221	73	208
Provision for other receivables	286	95	–
Provision for inventories	259	311	–
Research and development costs	216	807	3,217
Staff costs (including Directors' emoluments) (note 9)	3,843	9,190	15,558
Write-off of inventories	<u>–</u>	<u>–</u>	<u>1,703</u>

## 5. Finance costs

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Interest expense on:			
– bank loans and overdrafts	1,358	3,044	3,871
– other loans wholly repayable			
within five years	313	181	142
– trade payables	165	191	53
– finance leases	–	14	67
– loans due to staff	–	85	–
– discounted bills of exchange	–	–	668
– amount due to a minority shareholder			
of a subsidiary ( <i>note 22</i> )	16	–	–
	<u>1,852</u>	<u>3,515</u>	<u>4,801</u>
Other incidental borrowing costs	–	489	431
	<u>1,852</u>	<u>4,004</u>	<u>5,232</u>
<i>Less:</i> interest capitalised in construction			
in progress	(16)	(605)	(329)
	<u>(16)</u>	<u>(605)</u>	<u>(329)</u>
Total borrowing costs charged to the			
consolidated profit and loss account	<u>1,836</u>	<u>3,399</u>	<u>4,903</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 7.6%, between 6.6% and 18.0%, and 7.0% per annum for each of the years ended 31 December 2000, 2001 and 2002 respectively.

## 6. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax			
– provision for the year	15	60	–
– over provision in prior years	–	–	(60)
China mainland taxation	–	–	1,048
	<u>15</u>	<u>60</u>	<u>988</u>

Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits in Hong Kong for the years ended 31 December 2000 and 2001. No Hong Kong profits tax has been provided for the year ended 31 December 2002 as there was no assessable profit for the year.

In accordance with the approval from relevant local tax bureaus, two subsidiaries operating in China mainland are entitled to the exemption from enterprise income tax in the first two years from the first profit-making year and 50% reduction in the subsequent three years. One subsidiary was on the tax exemption for the years ended 31 December 2000 and 2001 and on the first year of 50% reduction for the year ended 31 December 2002. The other subsidiary was in loss-making position for the years ended 31 December 2000 and 2001 and on the first year of tax exemption for the year ended 31 December 2002. Another subsidiary in China mainland was in loss-making position during the Relevant Periods and accordingly did not have assessable income.

The subsidiary operating in Macao is exempt from income tax in Macao.

No Australian income tax has been provided as the subsidiaries operating in Australia had no estimated assessable profits during the Relevant Periods.

Deferred taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts has not been accounted for as the effect of timing differences is not material.

## 7. Dividends

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Interim dividend, paid, of HK1 cent, with options of 1 scrip share for every 30 shares or in cash or partly in shares and partly in cash, (2001: Nil; 2000: Nil) per share ( <i>note (a)</i> )	–	–	12,000
Final dividend, proposed, of HK 1 cent, with options of 1 scrip share for every 20 shares or in cash or partly in shares and partly in cash, (2001: Nil; 2000: Nil) per share ( <i>note (b)</i> )	–	–	12,273
	<u>–</u>	<u>–</u>	<u>24,273</u>

### Notes:

- (a) The interim dividend for the year ended 31 December 2002 was partly settled by scrip shares amounting to HK\$8,204,000.
- (b) At a meeting held on 28 February 2003, the Directors declared a final dividend of HK1 cent per share for the year ended 31 December 2002. The dividend is not reflected as a dividend payable in the consolidated accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2003.

## 8. Earnings per share

Basic earnings per share for the years ended 31 December 2000 and 2001 are calculated based on the profit attributable to shareholders of HK\$14,539,000 and HK\$38,125,000 respectively and on an aggregate of 960,000,000 shares, comprising 3 shares issued immediately after incorporation of the Company, 1,818,179 shares issued upon the Group Reorganisation together with 16,363,638 shares issued as a result of the share split and 941,818,180 shares issued pursuant to the capitalisation issue for the then shareholders of the Company upon completion of the Group Reorganisation, which were deemed to have been in issue since 1 January 2000.

Basic earnings per share for the year ended 31 December 2002 is calculated based on profit attributable to shareholders of HK\$40,592,000 and on the weighted average number of 1,183,538,255 shares in issue during the year.

There were no dilutive instruments outstanding for the year ended 31 December 2000 and 2001. As the exercise price of the share options granted during the year ended 31 December 2002 was greater than the average market price of the Company's share, there was no dilution effect on earnings per share for the year ended 31 December 2002.

## 9. Staff costs

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Wages and salaries	3,671	8,889	14,874
Unutilised annual leave	–	–	76
Retirement benefit costs	172	301	608
	<u>3,843</u>	<u>9,190</u>	<u>15,558</u>

The retirement benefit costs represent gross contributions by the Group to the schemes operated by the municipal governments of China mainland and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK\$90,000, HK\$81,000 and HK\$53,000 payable to the Retirement Schemes as at 31 December 2000, 2001 and 2002 are included in other payables. There were no forfeited contributions throughout the Relevant Periods.

**10. Directors' and senior management's emoluments**

- (i) Details of the emoluments paid and payable to the Directors during the Relevant Periods are as follows:

	<b>Year ended 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–	222
Salaries, allowances and benefits in kind	1,175	2,278	3,401
Retirement benefit costs	76	141	48
	<u>1,251</u>	<u>2,419</u>	<u>3,671</u>

Each of the four executive Directors of the Company received emoluments of approximately HK\$529,000, HK\$325,000, HK\$197,000 and HK\$200,000 for the year ended 31 December 2000, approximately HK\$736,000, HK\$591,000, HK\$591,000 and HK\$501,000 for the year ended 31 December 2001 and approximately HK\$1,004,000, HK\$886,000, HK\$807,000 and HK\$752,000 for the year ended 31 December 2002.

There were no directors' fees paid to independent non-executive Directors for the year ended 31 December 2000 and 2001. Directors' fees of HK\$222,000 were paid to independent non-executive Directors for the year ended 31 December 2002.

There was no share option scheme in 2000 and 2001. During the year ended 31 December 2002, no share options have been granted to any Directors of the Company under the share option scheme approved and adopted by the written resolutions of the shareholders of the Company dated 26 January 2002 (note 31).

The emoluments of the Directors fall into the following bands:

	<b>Number of Directors</b>		
	<b>Year ended 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
Emolument bands			
Nil to HK\$1,000,000	6	6	6
HK\$1,000,001 – HK\$1,500,000	–	–	1
	<u>6</u>	<u>6</u>	<u>7</u>

- (ii) The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2000, 2001 and 2002 include four Directors of the Company, whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Directors	1,251	2,419	3,449
Employees	209	571	677
	<u>1,460</u>	<u>2,990</u>	<u>4,126</u>

- (iii) Details of the emoluments paid by the Group to the highest paid employee as mentioned in note 10(ii) above are as follows:

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	209	547	665
Retirement benefit costs	–	24	12
	<u>209</u>	<u>571</u>	<u>677</u>

The emoluments of the highest paid employee fall into the following bands:

Emolument bands	Number of individuals		
	Year ended 31 December		
	2000	2001	2002
Nil to HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>

- (iv) During the Relevant Periods, no emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors waived or agreed to waive any emoluments during the Relevant Periods.

## 11. Related party transactions

In addition to those transactions and balances with related parties disclosed in notes 5, 10, 12, 18, 22, 23, 24, 25, 27, 28, 31 and 33 of section V of this report, the following related party transactions have been entered into by the Group during the Relevant Periods:

### *Non-continuing transactions*

	Note	Year ended 31 December		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Management fee paid to Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所)	(a)	425	–	–
Purchase of motor vehicles from a minority shareholder of a subsidiary	(b)	–	216	–
Rental expense to a Director of the Company	(c)	–	116	44

### *Notes:*

- (a) Management fee was charged by Wuhan Institute of Virology, the Chinese Academy of Sciences (“Wuhan Institute of Virology”), an immediate holding company of the minority shareholder of Wuhan Weiao Pharmaceuticals Co., Ltd. (“Wuhan Weiao”), a subsidiary of the Company, at a lump sum of RMB450,000 (equivalent to approximately HK\$425,000) per annum as set out in an agreement entered into between Wuhan Weiao and Wuhan Institute of Virology dated 26 January 1997 for the period from February 1997 to December 2000. No management fee was charged to Wuhan Institute of Virology for each of the years ended 31 December 2001 and 2002.
- (b) A subsidiary purchased two motor vehicles from the minority shareholder of another subsidiary at total considerations of approximately RMB229,000 (equivalent to approximately HK\$216,000) during the year ended 31 December 2001.
- (c) Pursuant to a tenancy agreement entered into between the Group and Mr. Tao Lung (“Mr. Tao”), a Director, on 8 September 2001, the Group leased office premises from Mr. Tao for a term of one year commencing from 8 September 2001 at a monthly rental of RMB30,684 (equivalent to approximately HK\$28,947), exclusive of management fee and outgoings. The lease agreement was terminated on 15 February 2002.
- (d) As at 1 January 2000, the Group had a receivable of approximately HK\$4,290,000 from a company, of which one of its directors is the director of certain subsidiaries of the Company. This amount was interest free, unsecured, had no fixed terms of repayment and was fully settled as at 31 December 2000.
- (e) On 26 December 2000, Maxsun International Limited (“Maxsun”), a subsidiary of the Group, purchased a trademark of Osteoform from Pharmco International, Inc. (“Pharmco”), a company wholly owned by the minority shareholders of Maxsun, at a consideration of US\$1.
- (f) No interest was charged on certain amounts due to minority shareholders of subsidiaries and amounts due to Directors during the Relevant Periods. If interest was charged on the amounts due to minority shareholders of subsidiaries and Directors at best lending rates in the PRC and Hong Kong Interbank Offered Rate, where appropriate, for each of the Relevant Periods, the amount of notional interest would not be significant to the Group’s results.



- (g) During the years ended 31 December 2000 and 2001, the Group's trust receipt loan and bank overdraft facilities were secured by an unlimited joint and several guarantee of a Director and a director of a subsidiary. On 26 February 2002, such guarantee was replaced by the corporate guarantee of the Company.
- (h) At 31 December 2002, the Group prepaid approximately HK\$2,642,000 to a third party for acquisition of the production technology of a product pursuant to an agreement dated 10 April 2002 (the "Technology Agreement"). Wuhan Maxin Industrial Company Limited (武漢馬新實業有限公司) ("Wuhan Maxin"), a company of which one of its directors is also the director of certain subsidiaries of the Company, has provided a guarantee to reimburse the prepaid amount together with interest costs to the Group if the third party fails to comply the terms and conditions of the Technology Agreement. The guarantee was replaced by a guarantee provided by a third party on 1 January 2003.

The Directors consider that the above transactions were conducted in the ordinary course of the Group's businesses. The Directors have confirmed that these transactions will not continue after the listing of the Company's shares on the Main Board of the Stock Exchange.

*Continuing transactions*

	Note	Year ended 31 December		
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Rental expense to Wuhan Institute of Virology	(i)	226	226	226
Rental and renovation expenses to Wuhan Maxin	(j)	329	156	156
Raw materials purchased from a related company	(k)	<u>12,928</u>	<u>21,258</u>	<u>37,072</u>

*Notes:*

- (i) Rental expense was charged by Wuhan Institute of Virology at a lump sum of RMB240,000 (equivalent to approximately HK\$226,000) per annum for the year ended 31 December 2000 as set out in an agreement entered into between Wuhan Weiao and Wuhan Institute of Virology dated 26 January 1997. Rental expense was charged by Wuhan Institute of Virology at a lump sum of RMB240,000 (equivalent to approximately HK\$226,000) per annum for each of the years ended 31 December 2001 and 2002 as set out in an agreement for a term of six years commencing on 1 January 2001 entered into between Wuhan Weiao and Wuhan Institute of Virology dated 20 December 2000 and an addendum dated 20 January 2001.
- (j) Pursuant to agreements entered into between Wuhan Weiao and Wuhan Maxin, rental expenses of RMB30,680 (equivalent to approximately HK\$29,000) and renovation expenses of RMB666,400 (equivalent to approximately HK\$629,000) were charged by Wuhan Maxin for the two years ended 31 December 2000.
- Rental expense was charged by Wuhan Maxin at an amount of RMB13,800 (equivalent to approximately HK\$13,000) per month for a term of six years commencing on 1 January 2001 as set out in an agreement dated 15 March 2001.
- (k) The Group purchased raw materials from Pharmco at prices and terms as set out in the agreement entered into between the Group and Pharmco.

- (l) Pursuant to a tenancy agreement dated 8 March 2001 entered into between Wuhan Maxin and the Group, Wuhan Maxin agreed to lease to the Group a premise in Wuhan, the PRC, as staff canteen for a term of three years and nine months commencing from 31 March 2002 to 31 December 2005. Under the tenancy agreement, the Group agreed to provide meals free of charge to 20 employees of Wuhan Maxin for each month as the consideration.
- (m) Pursuant to a trademark licence agreement dated 14 August 2002 entered into between Beshabar (Macao Commercial Offshore) Ltd ("Beshabar (Macao)"), a subsidiary of the Company, and Maxsun, Maxsun granted a licence to Beshabar (Macao) to use its trademark of Osteoform for twenty years in certain territories free of charge.
- (n) The Group has amounts due from non-wholly owned subsidiaries which are unsecured, interest free and have no fixed terms of repayment. The amounts receivable as at 31 December 2000, 2001 and 2002 were as follows:

	As at 31 December		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Wuhan Weiao	-	-	15,141
Vital Pharmaceuticals (Sichuan) Co., Ltd. ("Sichuan Pharmaceutical")	<u>9,009</u>	<u>30,132</u>	<u>7,177</u>

- (o) As at 31 December 2002, short term bank loans of approximately HK\$18,868,000 of Sichuan Pharmaceutical were guaranteed by Wuhan Weiao. At the same date, short term bank loan and other loan of approximately HK\$2,830,000 and HK\$2,830,000 respectively of Wuhan Weiao were guaranteed by Sichuan Pharmaceutical.

The Directors consider that the above transactions were conducted in the ordinary course of the Group's businesses. The Directors have confirmed that these transactions will continue after the listing of the Company's shares on the Main Board of the Stock Exchange.

## 12. Intangible assets

### Group

	Year ended 31 December 2000		
	Goodwill HK\$'000	Patent HK\$'000	Total HK\$'000
Cost			
At 1 January 2000	6,007	2,831	8,838
Additions	<u>1,804</u>	<u>-</u>	<u>1,804</u>
At 31 December 2000	<u>7,811</u>	<u>2,831</u>	<u>10,642</u>
Accumulated amortisation			
At 1 January 2000	421	566	987
Charge for the year	<u>503</u>	<u>189</u>	<u>692</u>
At 31 December 2000	<u>924</u>	<u>755</u>	<u>1,679</u>
Net book value			
At 31 December 2000	<u>6,887</u>	<u>2,076</u>	<u>8,963</u>

## Year ended 31 December 2001

	Development			Total HK\$'000
	Goodwill HK\$'000	Patent HK\$'000	costs HK\$'000	
Cost				
At 1 January 2001	7,811	2,831	–	10,642
Additions	149	–	462	611
At 31 December 2001	7,960	2,831	462	11,253
Accumulated amortisation				
At 1 January 2001	924	755	–	1,679
Charge for the year	644	189	29	862
At 31 December 2001	1,568	944	29	2,541
Net book value				
At 31 December 2001	6,392	1,887	433	8,712

## Year ended 31 December 2002

	Goodwill HK\$'000	Negative goodwill HK\$'000	Development		Total HK\$'000
			Patents HK\$'000	costs HK\$'000	
Cost					
At 1 January 2002	7,960	–	2,831	462	11,253
Additions	–	(182)	505	–	323
At 31 December 2002	7,960	(182)	3,336	462	11,576
Accumulated amortisation					
At 1 January 2002	1,568	–	944	29	2,541
Charge for the year	644	(24)	213	58	891
At 31 December 2002	2,212	(24)	1,157	87	3,432
Net book value					
At 31 December 2002	5,748	(158)	2,179	375	8,144

The goodwill and negative goodwill arose from the acquisitions of the relevant equity interests of subsidiaries by the Group.

The patents included the right in respect of knowledge knowhow and related manufacturing process of a pharmaceutical product acquired from Wuhan Institute of Virology upon establishment of the subsidiary in 1996. Additions in 2002 represented costs incurred for registration of certain patents in certain countries.

Development costs represented payments for experimental testing of a product in connection with the application of licences for sales of the product.

### 13. Fixed assets

#### Group

#### Year ended 31 December 2000

	Construction in progress <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost							
At 1 January 2000	-	-	785	3,075	683	446	4,989
Acquisition of a subsidiary	2,076	-	-	-	168	236	2,480
Additions	5,093	3,527	92	56	702	156	9,626
At 31 December 2000	7,169	3,527	877	3,131	1,553	838	17,095
Accumulated depreciation							
At 1 January 2000	-	-	660	703	683	206	2,252
Charge for the year	-	-	47	348	193	81	669
At 31 December 2000	-	-	707	1,051	876	287	2,921
Net book value							
At 31 December 2000	7,169	3,527	170	2,080	677	551	14,174

## Year ended 31 December 2001

	Construction in progress <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost							
At 1 January 2001	7,169	3,527	877	3,131	1,553	838	17,095
Exchange translation differences	-	-	-	(77)	-	(2)	(79)
Additions	16,253	4,472	1,102	174	866	810	23,677
Disposals	-	-	(92)	-	-	(58)	(150)
At 31 December 2001	<u>23,422</u>	<u>7,999</u>	<u>1,887</u>	<u>3,228</u>	<u>2,419</u>	<u>1,588</u>	<u>40,543</u>
Accumulated depreciation							
At 1 January 2001	-	-	707	1,051	876	287	2,921
Exchange translation differences	-	-	-	(24)	-	(1)	(25)
Charge for the year	-	144	142	379	297	170	1,132
Disposals	-	-	(19)	-	-	(14)	(33)
At 31 December 2001	<u>-</u>	<u>144</u>	<u>830</u>	<u>1,406</u>	<u>1,173</u>	<u>442</u>	<u>3,995</u>
Net book value							
At 31 December 2001	<u>23,422</u>	<u>7,855</u>	<u>1,057</u>	<u>1,822</u>	<u>1,246</u>	<u>1,146</u>	<u>36,548</u>

## Year ended 31 December 2002

	Construction in progress HK\$'000	Land use rights HK\$'000	Freehold land HK\$'000	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
<b>Cost</b>									
At 1 January 2002	23,422	7,999	-	-	1,887	3,228	2,419	1,588	40,543
Exchange translation differences	-	-	-	-	-	157	-	19	176
Additions	47,991	-	979	3,390	60	13,474	2,980	1,959	70,833
Transfer	(34,971)	-	-	-	-	34,971	-	-	-
Government grant	-	-	-	-	-	(594)	-	-	(594)
Disposals	-	-	-	-	(69)	(687)	-	-	(756)
At 31 December 2002	<u>36,442</u>	<u>7,999</u>	<u>979</u>	<u>3,390</u>	<u>1,878</u>	<u>50,549</u>	<u>5,399</u>	<u>3,566</u>	<u>110,202</u>
<b>Accumulated depreciation</b>									
At 1 January 2002	-	144	-	-	830	1,406	1,173	442	3,995
Exchange translation differences	-	-	-	-	-	77	-	7	84
Charge for the year	-	147	-	-	446	2,673	673	475	4,414
Disposals	-	-	-	-	(12)	(54)	-	-	(66)
At 31 December 2002	<u>-</u>	<u>291</u>	<u>-</u>	<u>-</u>	<u>1,264</u>	<u>4,102</u>	<u>1,846</u>	<u>924</u>	<u>8,427</u>
<b>Net book value</b>									
At 31 December 2002	<u>36,442</u>	<u>7,708</u>	<u>979</u>	<u>3,390</u>	<u>614</u>	<u>46,447</u>	<u>3,553</u>	<u>2,642</u>	<u>101,775</u>

**Notes:**

- (a) The land use rights are held outside Hong Kong under leases of 10 to 50 years. Freehold land is held outside Hong Kong.
- (b) At 31 December 2000, 2001 and 2002, the net book values of the fixed assets pledged as security for the Group's long term and short term bank loans amounted to approximately HK\$Nil, HK\$31,277,000 and HK\$44,538,000 respectively.
- (c) The aggregate cost and accumulated depreciation of the plant and machinery held for use under operating leases as at 31 December 2000 amounted to approximately HK\$Nil (2001: HK\$344,000; 2002: HK\$344,000) and HK\$Nil (2001: HK\$187,000; 2002: HK\$218,000) respectively.
- (d) At 31 December, 2000, 2001 and 2002, the aggregate net book value of motor vehicles held under finance leases, as included in the fixed assets, amounted to HK\$Nil, HK\$307,000 and HK\$Nil respectively.
- (e) At 31 December 2000, 2001 and 2002, the construction in progress included accumulated interest expenses capitalised of approximately HK\$16,000, HK\$621,000 and HK\$329,000 respectively.

## 14. Subsidiaries

	<b>Company</b>	
	<b>As at 31 December</b>	
	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	53,036
Amounts due from subsidiaries	–	87,906
Amount due to a subsidiary	–	(7)
	<u>–</u>	<u>140,935</u>

## 15. Investment securities

	<b>Group and Company</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments in guaranteed funds, at cost	–	–	3,900
	<u>–</u>	<u>–</u>	<u>3,900</u>

## 16. Inventories

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials			
– in transit	–	–	5,936
– on hand	2,444	2,547	193
Work in progress	318	–	8,890
Finished goods	629	1,235	5,815
Packing materials	75	9	1,099
	<u>3,466</u>	<u>3,791</u>	<u>21,933</u>

All inventories were carried at cost.

## 17. Receivables and prepayments

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	42,102	27,836	56,731
Prepayments and deposits	2,416	21,044	19,212
Other receivables	1,465	2,800	4,026
	<u>45,983</u>	<u>51,680</u>	<u>79,969</u>

The sales for the year ended 31 December 2002 were on open account terms while the Group's sales for the years ended 31 December 2001 and 2000 were also on letters of credit or documents against payment.

The Group normally grants to its customers credit periods ranging from 90 days to 120 days. These are subject to periodic review by management.

The age analysis of the trade receivables is as follows:

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	24,734	15,253	27,714
31 – 60 days	10,171	5,211	21,772
61 – 90 days	3,369	4,551	6,375
Over 90 days	3,828	2,821	870
	<u>42,102</u>	<u>27,836</u>	<u>56,731</u>

	<b>Company</b>	
	<b>As at 31 December</b>	
	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	–	5,818
	<u>–</u>	<u>5,818</u>

## 18. Amounts due from/to related companies

Amounts receivable as at 31 December 2001 were unsecured, interest free and had no fixed terms of repayment. These related companies became the Company's subsidiaries following the completion of the Group Reorganisation as referred to in note 1 above.



**19. Other investment**

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investment, at fair value	<u>–</u>	<u>–</u>	<u>94</u>

**20. Bank balances and cash**

Bank balances and cash of the Group as at 31 December 2000, 2001 and 2002 included deposits of approximately HK\$334,000, HK\$4,364,000 and HK\$5,983,000 respectively pledged as collateral for the trust receipt loan and bank overdraft facilities (note 24).

Bank balances and cash of the Group as at 31 December 2001 included deposits of approximately HK\$3,571,000 pledged as collateral for the short term bank loans (note 24).

Bank balances and cash of the Group as at 31 December 2002 included a deposit of approximately HK\$2,000,000 pledged as collateral for credit facility granted by bank.

Bank balances and cash of the Group as at 31 December 2000, 2001 and 2002 included amounts of approximately HK\$3,869,000, HK\$2,411,000 and HK\$24,607,000 respectively, which were denominated in Renminbi and are not freely convertible to other currencies.

**21. Trade and other payables**

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	14,448	8,753	9,529
Accrued charges and other payables	<u>4,414</u>	<u>5,910</u>	<u>10,043</u>
	<u>18,862</u>	<u>14,663</u>	<u>19,572</u>

The age analysis of the trade payables was as follows:

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	8,106	3,446	5,327
31 – 60 days	511	1,513	1,437
61 – 90 days	2,892	2,643	1,118
Over 90 days	2,939	1,151	1,647
	<u>14,448</u>	<u>8,753</u>	<u>9,529</u>

	<b>Company</b>	
	<b>As at 31 December</b>	
	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	<u>54</u>	<u>769</u>

## 22. Amounts due to minority shareholders of subsidiaries

Amounts payable are unsecured and have no fixed terms of repayment. The amounts are interest free except for a loan of approximately HK\$4,575,000 which bore interest at 7.56% per annum during the year ended 31 December 2000. Such loan was interest free and fully repaid during the year ended 31 December 2001.

## 23. Amounts due to Directors

Amounts payable as at 31 December 2000 and 2001 were unsecured, interest free and had no fixed terms of repayment.

Amounts payable by the Company as at 31 December 2001 included HK\$1,900,000 which were fully settled on 23 January 2002 by issuance of one share of the Company to one of the Directors pursuant to the Group Reorganisation (note 27(c)).

**24. Bank loans and overdrafts**

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term bank loans			
– secured ( <i>note a</i> )	–	3,396	4,717
– unsecured ( <i>note b</i> )	17,274	15,189	45,283
	<u>17,274</u>	<u>18,585</u>	<u>50,000</u>
Trust receipt loans – secured ( <i>note 20</i> )	3,552	2,449	3,715
Bank overdrafts – secured ( <i>note 20</i> )	–	1,797	–
	<u>20,826</u>	<u>22,831</u>	<u>53,715</u>

*Notes:*

- (a) At 31 December 2002, short term bank loans of approximately HK\$4,717,000 were secured by certain fixed assets of the Group (*note 13(b)*). Short term bank loans as at 31 December 2001 of approximately HK\$3,396,000 were secured by certain bank deposits of a subsidiary (*note 20*).
- (b) At 31 December 2001, short term bank loans of approximately HK\$12,547,000 (2000: HK\$12,557,000) and HK\$2,642,000 (2000: HK\$2,830,000) were secured by properties of Wuhan Maxin and guaranteed by Wuhan Maxin respectively, which were replaced by corporate guarantees provided by a subsidiary of the Company during the year ended 31 December 2002. Short term bank loans of approximately HK\$1,887,000 as at 31 December 2000 were guaranteed by an intermediate holding company of the minority shareholder of a subsidiary.

**25. Other loans**

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other loans – unsecured ( <i>note</i> )	<u>6,009</u>	<u>4,751</u>	<u>2,830</u>

*Note:*

Other loan of approximately HK\$2,830,000 as at 31 December 2000 and 2001 was secured by properties of Wuhan Maxin. The security was replaced by a corporate guarantee provided by a subsidiary in 2002. The loan was fully settled in May 2003.

## 26. Long term liabilities

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Wholly repayable within five years			
Secured bank loans	–	14,319	12,395
Obligations under finance leases	–	275	–
	–	14,594	12,395
Current portion of long term liabilities	–	(1,981)	(2,867)
Long term portion	–	12,613	9,528

The maturity of the long term bank loans is as follows:

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	1,923	2,867
In the second year	–	2,867	4,754
In the third to fifth years inclusive	–	9,529	4,774
	–	14,319	12,395

The long term bank loans of HK\$Nil, HK\$14,319,000 and HK\$12,395,000 and short term bank loans of HK\$Nil, HK\$Nil and HK\$4,717,000 as at 31 December 2000, 2001 and 2002 respectively are secured by certain fixed assets of the Group (note 13(b)).

The finance lease liabilities were repayable as follows:

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	87	–
In the second year	–	87	–
In the third to fifth years inclusive	–	169	–
	–	343	–
Future finance charges on finance leases	–	(68)	–
Present value of finance lease liabilities	–	275	–

The present value of finance lease liabilities was as follows:

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	58	–
In the second year	–	66	–
In the third to fifth years inclusive	–	151	–
	<u>–</u>	<u>275</u>	<u>–</u>

## 27. Share capital

	<b>2001</b>			<b>2002</b>		
	<b>Number of shares</b>	<b>Par value per share <i>HK\$</i></b>	<b>Nominal value <i>HK\$'000</i></b>	<b>Number of shares</b>	<b>Par value per share <i>HK\$</i></b>	<b>Nominal value <i>HK\$'000</i></b>
Authorised:						
At 1 January	–	–	–	3,900,000	0.1	390
Upon incorporation (note a)	3,900,000	0.1	390	–	–	–
Subdivision of 1 share into 10 shares (note d (i))	–	–	–	35,100,000	0.01	–
Increase in authorised share capital (note d (ii))	–	–	–	49,961,000,000	0.01	499,610
At 31 December	<u>3,900,000</u>	0.1	<u>390</u>	<u>50,000,000,000</u>	0.01	<u>500,000</u>

	<b>2001</b>			<b>2002</b>		
	<b>Number of shares</b>	<b>Par value per share <i>HK\$</i></b>	<b>Amount <i>HK\$'000</i></b>	<b>Number of shares</b>	<b>Par value per share <i>HK\$</i></b>	<b>Amount <i>HK\$'000</i></b>
Issued and fully paid:						
At 1 January	–	–	–	909,091	0.10	–
Shares allotted and issued upon incorporation (note a)	3	0.10	–	–	–	–
Shares allotted and issued for acquisition of subsidiaries pursuant to the Group Reorganisation (notes b and c)	909,088	0.10	–	909,090	0.10	182
Shares allotted and issued for capitalisation of amounts due to Directors pursuant to the Group Reorganisation (note c)	–	–	–	1	0.10	–
Share split (note d (i))	–	–	–	16,363,638	0.01	–
Capitalisation issue (note d (iii))	–	–	–	941,818,180	0.01	9,418
Issue of shares by placement (note d (iv))	–	–	–	240,000,000	0.01	2,400
Issue of shares for scrip dividends	–	–	–	27,347,268	0.01	273
At 31 December	<u>909,091</u>	0.10	<u>–</u>	<u>1,227,347,268</u>	0.01	<u>12,273</u>

*Notes:*

- (a) The Company was incorporated in the Cayman Islands on 30 May 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On the same date, one share of HK\$0.10 each was allotted and issued for cash at HK\$0.10. On 31 May 2001, two shares of HK\$0.10 each were allotted and issued for cash at par.
- (b) On 17 December 2001, two shares of US\$1 each in Ever Power Holding Inc. and two shares of US\$1 each in Gainful Plan Limited were transferred by certain shareholders of the Company to the Company in consideration of and exchange for which the Company allotted and issued, credited as fully paid, one share of HK\$0.10, to one of these shareholders.
- On 17 December 2001, an aggregate of 909,087 new shares of HK\$0.10 each were also issued and allotted nil paid to then shareholders.
- (c) On 23 January 2002, the shareholders of the Company transferred the entire share capital of Yugofoil to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each; and (ii) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each held by shareholders of the Company.
- On 23 January 2002, the Company allotted and issued one share of HK\$0.10 each, at the joint direction of three Directors, to a Director of the Company for the settlement of amounts of AUD475,000 (approximately HK\$1,900,000) due to these three Directors.
- (d) Pursuant to resolution in writing passed by all shareholders of the Company on 26 January 2002:
- (i) the then issued and unissued shares having a par value of HK\$0.10 each in the capital of the Company were subdivided into ten shares of HK\$0.01 each.
  - (ii) the authorised share capital of the Company was increased by HK\$499,610,000 from HK\$390,000 to HK\$500,000,000 by the creation of additional 49,961,000,000 shares of HK\$0.01 each.
  - (iii) a total of 941,818,180 shares were allotted as fully paid at par to shareholders whose names appeared on the register of shareholders of the Company in proportion to their respective shareholdings at the close of business on 26 January 2002 by way of capitalisation issue of the sum of HK\$9,418,182 standing to the credit of the share premium account of the Company.
  - (iv) the Company issued 240,000,000 new shares of HK\$0.01 each by way of placing at HK\$0.45 per share for cash.
- (e) For the purpose of the preparation of the Consolidated Financial Information, the comparative of share capital shown in the consolidated balance sheets as at 31 December 2000 and 2001 represented 18,181,820 shares of HK\$0.01 each in the share capital of the Company upon completion of the Group Reorganisation.

## 28. Reserves

## Group

	Year ended 31 December 2000						Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000 (note (a))	Exchange reserve HK\$'000	Reserve fund HK\$'000	Enterprise development fund HK\$'000	(Accumulated losses)/ retained profits HK\$'000	
At 1 January 2000	-	1,719	-	-	-	(690)	1,029
Transfer (note (b))	-	-	-	42	22	(64)	-
Profit for the year	-	-	-	-	-	14,539	14,539
At 31 December 2000	<u>-</u>	<u>1,719</u>	<u>-</u>	<u>42</u>	<u>22</u>	<u>13,785</u>	<u>15,568</u>
	Year ended 31 December 2001						Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000 (note (a))	Exchange reserve HK\$'000	Reserve fund HK\$'000	Enterprise development fund HK\$'000	Retained profits HK\$'000	
At 1 January 2001	-	1,719	-	42	22	13,785	15,568
Transfer (note (b))	-	-	-	1,189	594	(1,783)	-
Exchange translation differences	-	-	119	-	-	-	119
Profit for the year	-	-	-	-	-	38,125	38,125
At 31 December 2001	<u>-</u>	<u>1,719</u>	<u>119</u>	<u>1,231</u>	<u>616</u>	<u>50,127</u>	<u>53,812</u>

## Year ended 31 December 2002

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i> <i>(note (a))</i>	Exchange reserve <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Enterprise development fund <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	-	1,719	119	1,231	616	50,127	53,812
Exchange translation differences	-	-	(89)	-	-	-	(89)
Premium on issue of shares by placement	105,600	-	-	-	-	-	105,600
Capitalisation issue	(9,418)	-	-	-	-	-	(9,418)
Share issue expenses	(22,142)	-	-	-	-	-	(22,142)
Profit for the year	-	-	-	-	-	40,592	40,592
2002 interim dividends <i>(note 7)</i>	-	-	-	-	-	(12,000)	(12,000)
Issue of shares for scrip dividends	7,931	-	-	-	-	-	7,931
At 31 December 2002	<u>81,971</u>	<u>1,719</u>	<u>30</u>	<u>1,231</u>	<u>616</u>	<u>78,719</u>	<u>164,286</u>
Representing:							
Reserves	81,971	1,719	30	1,231	616	66,446	152,013
2002 final dividend proposed <i>(note 7)</i>	-	-	-	-	-	12,273	12,273
	<u>81,971</u>	<u>1,719</u>	<u>30</u>	<u>1,231</u>	<u>616</u>	<u>78,719</u>	<u>164,286</u>

## Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired together with amounts due to Directors capitalised pursuant to the Group Reorganisation and the nominal value of the Company's shares issued in exchange therefor.
- (b) A subsidiary in the PRC has appropriated 10% and 5% respectively of the profit for each of the years ended 31 December 2000 and 2001 after setting off accumulated losses brought forward to reserve fund and enterprise development fund respectively. These reserves are required to be retained in the accounts of the subsidiary for specific purposes.



## Company

	Year ended 31 December 2001		
	Share premium	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	–	–	–
Loss for the period	–	(294)	(294)
At 31 December 2001	<u>–</u>	<u>(294)</u>	<u>(294)</u>
	Year ended 31 December 2002		
	Share premium	(Accumulated losses)/ retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	–	(294)	(294)
Premium on issue of shares pursuant to the Group Reorganisation ( <i>note a</i> )	54,754	–	54,754
Issue of shares by placement	105,600	–	105,600
Capitalisation issue	(9,418)	–	(9,418)
Share issue expenses	(22,142)	–	(22,142)
Profit for the year	–	24,676	24,676
2002 interim dividends	–	(12,000)	(12,000)
Issue of shares for scrip dividends	7,931	–	7,931
At 31 December 2002	<u>136,725</u>	<u>12,382</u>	<u>149,107</u>
Representing:			
Reserves ( <i>note b</i> )	136,725	109	136,834
2002 final dividends proposed	–	12,273	12,273
	<u>136,725</u>	<u>12,382</u>	<u>149,107</u>

## Notes:

- (a) The premium on issue of shares pursuant to the Group Reorganisation represents the excess of the consolidated net asset value of subsidiaries acquired together with amounts due to Directors capitalised pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor.
- (b) Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, share premium of the Company is distributable to the shareholders. At 31 December 2002, in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium account and retained profits amounted to HK\$149,107,000.

## 29. Notes to the consolidated cash flow statements

## (a) Reconciliation of operating profit to cash generated from operations

	Year ended 31 December		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Operating profit	17,133	42,498	54,210
Interest income	(28)	(46)	(348)
Depreciation and amortisation	669	1,132	4,414
Loss on disposal of fixed assets	–	77	77
Amortisation of intangible assets	692	862	891
Operating profit before working capital changes	18,466	44,523	59,244
Increase in inventories	(1,624)	(325)	(18,142)
Increase in receivables and prepayments	(17,834)	(5,697)	(28,289)
Decrease in amount due from a related company	4,290	–	–
Decrease in amount due from a Director	319	–	–
Increase/(decrease) in trade and other payables	1,396	(4,199)	4,755
Increase/(decrease) in amounts due to minority shareholders of subsidiaries	2,408	32	(222)
Increase/(decrease) in amounts due to Directors	3,070	(3,370)	(200)
Increase/(decrease) in value added tax payable	1,513	(2,748)	3,394
Effect of foreign exchange rate changes	–	(8)	(181)
Cash generated from operations	<u>12,004</u>	<u>28,208</u>	<u>20,359</u>

## (b) Analysis of changes in financing

	Year ended 31 December 2000			
	Minority interests HK\$'000	Short term bank loans HK\$'000	Trust receipt loans HK\$'000	Other loan HK\$'000
At 1 January 2000	(240)	17,274	–	6,009
Acquisition of a subsidiary (note 29(c))	1,432	–	–	–
Minority interests in share of profits less losses	743	–	–	–
Cash inflow/(outflow) from financing	–	–	3,552	–
At 31 December 2000	<u>1,935</u>	<u>17,274</u>	<u>3,552</u>	<u>6,009</u>

	Year ended 31 December 2001					Obligations
	Minority	Long term	Short term	Trust	Other loans	under
	interests	bank loans	bank loans	receipt		finance
	HK\$'000	HK\$'000	HK\$'000	loans	HK\$'000	leases
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	1,935	-	17,274	3,552	6,009	-
Exchange translation differences	-	-	-	-	(181)	-
Acquisition of additional equity interest in a subsidiary (note 29(e))	(419)	-	-	-	-	-
Minority interests' in share of profits less losses	914	-	-	-	-	-
Inception of finance leases (note 29(f))	-	-	-	-	-	298
Cash inflow/(outflow) from financing	-	14,319	1,311	(1,103)	(1,077)	(23)
At 31 December 2001	<u>2,430</u>	<u>14,319</u>	<u>18,585</u>	<u>2,449</u>	<u>4,751</u>	<u>275</u>

	Year ended 31 December 2002							
	Dividends payable	Share capital (including share premium)	Minority interests	Long term bank loans	Short term bank loans	Trust receipt loans	Other loans	Obligations under finance leases
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	-	182	2,430	14,319	18,585	2,449	4,751	275
Minority interests' in share of profits less losses	-	-	7,727	-	-	-	-	-
Acquisition of additional equity interest in a subsidiary (note 29(e))	-	-	(182)	-	-	-	-	-
Dividends	12,000	-	-	-	-	-	-	-
Issue of shares for scrip dividends	(8,204)	8,204	-	-	-	-	-	-
Cash inflow/(outflow) from financing	(3,796)	85,858	1,557	(1,924)	31,415	1,266	(1,921)	(275)
At 31 December 2002	<u>-</u>	<u>94,244</u>	<u>11,532</u>	<u>12,395</u>	<u>50,000</u>	<u>3,715</u>	<u>2,830</u>	<u>-</u>

(c) *Purchase of a subsidiary*

	Year ended 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Fixed assets	2,480	–	–
Inventories	401	–	–
Receivables and prepayments	517	–	–
Bank balances and cash	910	–	–
Trade and other payables	(434)	–	–
Amount due to a minority shareholder	(2,455)	–	–
Amount due to a former holding company	(943)	–	–
Value added tax payable	(1)	–	–
Minority shareholder's interests	(1,432)	–	–
	<u>(957)</u>	<u>–</u>	<u>–</u>
Goodwill	1,804	–	–
	<u>847</u>	<u>–</u>	<u>–</u>
Consideration	<u>847</u>	<u>–</u>	<u>–</u>
Satisfied by			
Cash	<u>847</u>	<u>–</u>	<u>–</u>

The subsidiary acquired in 2000 contributed HK\$70,000 to the Group's net operating cash flows and utilised HK\$8,639,000 for investing activities.

(d) *Analysis of cash flow on purchase a subsidiary*

	Year ended
	31 December
	2000
	HK\$'000
Cash consideration	(847)
Bank balances and cash acquired	<u>910</u>
Cash flow on purchase of a subsidiary net of cash acquired	<u>63</u>

*(e) Purchases of additional equity interests in subsidiaries*

	<b>Year ended 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets acquired	–	419	2,142
Goodwill/(negative goodwill)	–	149	(182)
	<u>–</u>	<u>149</u>	<u>(182)</u>
Consideration	–	568	1,960
	<u>–</u>	<u>568</u>	<u>1,960</u>
Satisfied by:			
Cash	–	568	1,960
	<u>–</u>	<u>568</u>	<u>1,960</u>

In 1999, the Group purchased additional interests in a subsidiary at total considerations of approximately HK\$1,934,000. The payments of HK\$1,934,000 together with an amount of HK\$568,000 for purchase of additional equity interests in the subsidiary in 2001 as described above, totalling HK\$2,502,000, were settled in 2001.

*(f) Major non-cash transactions*

The purchase of the additional equity interest in a subsidiary during the year ended 31 December 2002 was by way of capital contribution through cash injection into the subsidiary.

In 2001, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$298,000.

*(g) Analysis of balance of cash and cash equivalents*

	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash – unpledged	4,860	6,460	57,976
Bank overdrafts	–	(1,797)	–
	<u>4,860</u>	<u>(1,797)</u>	<u>–</u>
	<u>4,860</u>	<u>4,663</u>	<u>57,976</u>

**30. Commitments***(a) Capital commitments*

The Group had capital commitments for construction in progress and other fixed assets as follows:

	As at 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for	–	–	38,998
Contracted but not provided for	9,187	8,108	17,067
	<u>9,187</u>	<u>8,108</u>	<u>56,065</u>

At 31 December 2001 and 2002, the Company did not have any significant capital commitments.

*(b) Commitments under operating leases*

The Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December		
	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
Land and buildings			
Not later than one year	803	400	1,393
Later than one year and not later than five years	950	2,547	1,758
Later than five years	156	–	850
	<u>1,909</u>	<u>2,947</u>	<u>4,001</u>

At 31 December 2001 and 2002, the Company did not have any significant commitments under operating leases.

*(c) Commitments for developments of new products and/or technologies*

Pursuant to agreements entered into between the Group and third parties, the Group has outstanding commitments contracted but not provided for of HK\$Nil, HK\$Nil and HK\$603,000 as at 31 December 2000, 2001 and 2002 respectively for the development of new products and/or technologies.

### 31. Share option scheme

Pursuant to the written resolutions of the shareholders of the Company dated 26 January 2002, a share option scheme ("Share Option Scheme") was approved and adopted.

Under the Share Option Scheme, the Directors may, at their sole discretion, grant to any employee of the Group to take up options to subscribe for shares of the Company at the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; or (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The maximum number of securities to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant shares or securities of the Company (or the subsidiary) in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 120,000,000 shares, representing 10% of the shares in issue upon completion of the placing and the capitalisation issue of the shares of the Company.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer but shall and in any event be not later than ten years from the date on which the offer is made subject to the provisions of early termination thereof.

The Share Option Scheme will remain in force for a period of ten years commencing the date on which the Share Option Scheme becomes unconditional.

On 21 June 2002, the Directors granted options to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the Share Option Scheme at HK\$0.39 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.37 per share. Those who were granted with the options can exercise their rights in multiple periods starting from 16 August 2002 to 6 February 2012 as follows:

From 16 August 2002 to 6 February 2012	– approximately 6,850,000 shares
From 1 January 2003 to 6 February 2012	– approximately 8,280,000 shares
From 1 January 2004 to 6 February 2012	– approximately 6,510,000 shares
From 1 January 2005 to 6 February 2012	– approximately 8,360,000 shares

Among the grantees in this grant of share options, 108 of them are full-time employees of the Company and an aggregate of 21,100,000 shares were granted to them; 29 of them are staff of major customers of the Company and an aggregate of 8,900,000 shares were granted to them.

Share options outstanding at 31 December 2002 have the following terms:

	Expiry date	Exercise price HK\$	Number of options	Vested percentages
Employees of the Company	6 February 2012	0.39	21,100,000	18.0%
Employees of the customers	6 February 2012	0.39	8,900,000	4.8%

On 28 February 2003, the Directors granted options to certain directors of certain subsidiaries of the Group to subscribe for an aggregate of 19,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the Share Option Scheme at HK\$0.24 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.21 per share. Those who were granted with the options can exercise their rights from 1 March 2003 to any time before expiry. The expiry date of these share options granted is on 6 February 2012.

### 32. Future operating lease income

The Group had total future aggregate minimum lease receipts under non-cancellable operating lease as follows:

	As at 31 December		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Plant and machinery			
Not later than one year	–	91	8
Later than one year and not later than five years	–	8	–
	–	99	8
	–	99	8



## 33. Contingent liabilities

	<b>Group</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills of exchange discounted with recourse	–	–	37,736
	<u>–</u>	<u>–</u>	<u>37,736</u>
	<u>–</u>	<u>–</u>	<u>37,736</u>
	<b>Company</b>		
	<b>As at 31 December</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees for utilised banking facilities of subsidiaries			
– Sichuan Pharmaceutical	–	–	23,584
– Beshabar (Macao)	–	–	5,298
Guarantees for bills of exchange of Sichuan Pharmaceutical discounted with recourse	–	–	37,736
	<u>–</u>	<u>–</u>	<u>37,736</u>
	<u>–</u>	<u>–</u>	<u>66,618</u>

The Directors anticipate that no material liabilities will arise from the above discounted bills of exchange which arose in the ordinary course of business.

## 34. Subsequent events

The following significant events took place subsequent to 31 December 2002:

- (a) On 3 April 2003, a wholly owned subsidiary, Vital BioTech (Shanghai) Company Limited was established. The subsidiary has a registered capital of HK\$2,000,000 and is a wholly foreign owned enterprise established in the PRC. As of the date of this report, HK\$500,000 of the registered capital was paid.
- (b) On 13 May 2003, the Directors approved the issue and allotment of 50,114,901 shares of the Company credited as fully paid in connection with the final dividend of the Company for the year ended 31 December 2002 ("2002 Final Dividend"). The 2002 Final Dividend was partly settled by scrip shares amounting to approximately HK\$10,023,000 and partly settled by cash amounting to approximately HK\$2,250,000 on 16 May 2003.
- (c) On 26 May 2003, a subsidiary of the Company obtained a term loan facility of HK\$15.6 million from a bank for general working capital purpose. The facility was secured by bank deposits of approximately HK\$4.7 million, investment securities of approximately HK\$3.9 million and cross guarantees provided by the Company and certain subsidiaries.

## VI. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries, all of which have adopted 31 December as their financial year end date, as at 31 December 2002 are as follows:

Company	Place and date of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest	Principal activities
<b>Direct subsidiaries:</b>				
* Ever Power Holding Inc. (notes a and e)	BVI 25 May 2001	2 ordinary shares of US\$1 each	100%	Investment holding
* Gainful Plan Limited (notes a and e)	BVI 25 May 2001	2 ordinary shares of US\$1 each	100%	Investment holding
* Sino Lion Capital Inc (note e)	BVI 23 July 2002	1 ordinary share of US\$1	100%	Investment holding
* Vital BioTech (Hong Kong) Limited (notes b and f)	Hong Kong 17 November 2000	2 ordinary shares of HK\$1 each	100%	Investment holding
* Yugofoil Holdings Limited (notes a and f)	BVI 11 May 1993	100 ordinary shares of US\$1 each	100%	Investment holding and provision for management services
<b>Indirect subsidiaries:</b>				
* Beshabar Trading Limited (notes a and f)	BVI 22 April 1997	1 ordinary share of US\$1	100%	Investment holding
* Beshabar (Macao Commercial Offshore) Ltd (notes a and f)	Macao 18 March 2002	1 quota (share) of MOP100,000 each	100%	Trading of pharmaceutical products
* Beshabar Trading Limited (formerly Wise Shine Limited) (notes a and f)	Hong Kong 25 August 2000	100 ordinary shares of HK\$1 each	100%	Trading of pharmaceutical products
* Darsawye Pty Ltd (note h)	Australia 7 June 2002	12 shares of AUD1 each	100%	Property holding

Company	Place and date of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest	Principal activities
* Farthinghoe Enterprises Limited ( <i>notes a and e</i> )	BVI 1 September 1997	3 ordinary shares of US\$1 each	100%	Investment holding
* Maxsun International Limited ( <i>notes a and f</i> )	Hong Kong 29 March 2000	100 ordinary shares of HK\$1 each	51%	Investment holding
# Wuhan Weiao Pharmaceuticals Co., Ltd. (formerly known as Wuhan Tianao Pharmaceuticals Co., Ltd) ( <i>notes a, d and g</i> )	PRC 30 October 1996	RMB18,000,000	95%	Manufacturing and trading of pharmaceutical products
# Vital Pharmaceuticals (Sichuan) Co., Ltd. (formerly known as Sichuan Weiao Pharmacy Co., Limited prior to 2 June 2003 and Sichuan Kangbai Sichuan Weiao Pharmacy Co., Ltd prior to 19 July 2001) ( <i>notes a, c and g</i> )	PRC 8 January 1998	RMB25,000,000	85%	Manufacturing and trading of pharmaceutical products
* Vitapharm Research Pty Ltd ( <i>notes a and i</i> )	Australia 1 April 1998	20 ordinary shares of AUD1 each	100%	Research and development
## Vital (Sichuan) Biotech Co., Ltd ( <i>note g</i> )	PRC 25 July 2001	US\$1,400,000	100%	Research and development
* Wide Triumph Limited ( <i>note f</i> )	Hong Kong 1 February 2002	100 ordinary shares of HK\$1 each	100%	Management services
* Companies limited by shares				
# Equity joint ventures				
## Wholly owned foreign enterprise				

## Notes:

- (a) Became subsidiaries under the Group Reorganisation as set out in Section V note 1 above.
- (b) Vital BioTech (Hong Kong) Limited was acquired by the Group on 19 June 2001.
- (c) Equity interest of 76.7% and 8.3% in Vital Pharmaceuticals (Sichuan) Co., Ltd. were acquired by the Group on 16 November 2000 and 8 May 2002 respectively.
- (d) As at 1 January 2000, the Group had equity interest of 90% in Wuhan Weiao Pharmaceuticals Co., Ltd.. Equity interest of 5% in Wuhan Weiao Pharmaceuticals Co., Ltd. was acquired by the Group on 1 April 2001.

- (e) No audited accounts have been prepared for these companies since their respective dates of incorporation or dates of effective acquisition by the Group.
- (f) PricewaterhouseCoopers Hong Kong acted as auditors of these companies for the Relevant Periods or since their respective dates of incorporation.
- (g) The accounts of the subsidiaries for the Relevant Periods or since the date of establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by PRC auditors.

The accounts of Vital Pharmaceuticals (Sichuan) Co., Ltd. for each of the three years ended 31 December 2000, 2001 and 2002 and the accounts of Vital (Sichuan) Biotech Co., Ltd. for the period from 25 July 2001 (date of establishment) to 31 December 2001 and for the year ended 31 December 2002 were audited by Jianke Certified Public Accountant Co., Ltd., Sichuan. The accounts of Wuhan Weiao Pharmaceuticals Co., Ltd. for each of the three years ended 31 December 2000, 2001 and 2002 were audited by Hubei Hongda Certified Public Accountants Limited.

- (h) PricewaterhouseCoopers in Melbourne, Australia acted as auditors of this company since the date of its incorporation.
- (i) PricewaterhouseCoopers in Melbourne, Australia acted as auditors of this company for the years ended 31 December 2001 and 2002.

## **VII. SUBSEQUENT ACCOUNTS**

No audited accounts have been prepared for the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2002.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this listing document received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 30 April 2003 of the property interests of the Group.

**BMI APPRAISALS LIMITED****邦盟滙駿評估有限公司**

Suite 1405-06, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong  
Tel: (852) 2802 2191 Fax: (852) 2802 0331  
Email: info@bmi-appraisals.com Website: <http://www.bmi-appraisals.com>

30 June 2003

The Directors  
Vital BioTech Holdings Limited  
18th Floor, CRE Building  
No. 303 Hennessy Road  
Wanchai  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests of Vital BioTech Holdings Limited (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) located in Australia, Hong Kong, Macao and the People’s Republic of China (the “PRC”). We confirm that we have performed site inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 30 April 2003 (referred to as the “date of valuation”).

**BASIS OF VALUATION**

Our valuations of the property interests are our opinion of the open market value of each of the property concerned which we would define as intended to mean “the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

**PROPERTY CATEGORIZATION**

In the course of our valuations, the portfolio of properties held by the Group is categorized under the following groups:

- Group I – Property interest held for owner-occupation by the Group in Australia
- Group II – Property interest held for owner-occupation by the Group in the PRC
- Group III – Property interests held for development by the Group in the PRC
- Group IV – Property interests rented/licenced by the Group in Hong Kong
- Group V – Property interest rented by the Group in Macao
- Group VI – Property interests rented by the Group in the PRC

**VALUATION METHODOLOGIES****Group I**

In valuing Property No.1, we have valued it on an open market basis by the Comparison Approach assuming sales in its existing state with the benefit of vacant possession by making reference to comparable sales evidence as available in the relevant market.

**Group II**

Due to the inherent nature of usage and lack of market sales comparable, this property has been valued by the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as “the aggregate amount of the value of the land in existing use or a notional replacement site in the same locality, and the new replacement cost of the buildings, structures and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement.” This opinion of value does not necessarily represent the amount that might be realized from the disposition of the subject asset in the open market and is subject to adequate profitability of the business compared to the value of the total assets employed. This basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

**Group III**

In valuing the properties, which are being held under development, we have assumed that they will be developed and completed in accordance with the Group’s respective latest development proposals. In arriving at our opinion of values, we have valued the land by the Comparison Approach by making reference to comparable transactions in the locality and have taken into account the construction costs and professional fees already spent and the remainder to be expended to complete the developments.

**Groups IV, V and VI**

In valuing the property interests rented/licenced by the Group, we are of the opinion that they have no commercial value either because of their non-assignability in the open market or there are prohibitions against subletting and/or assignment contained in the respective leases, licences and/ or tenancy agreements or the lack of marketable and substantial profit rents.

**TITLE INVESTIGATIONS****Group I**

We have been provided with copies of extracts of title documents and advised by the Group that no further relevant documents have been produced. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents have been used for reference only.

**Groups II and III**

We have been provided with copies of extracts of title documents and advised by the Group that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuations, we have relied on the advice and information given by the Group and its PRC legal advisers in the legal opinion regarding the titles of such PRC properties.

**Groups IV and V**

We have been provided with copies of a licence and tenancy agreements of the property interests rented licensed by the Group. However, we have neither examined the original documents to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents, licences and leases have been used for reference only.

**Group VI**

We have been provided with copies of tenancy agreements of the property interests rented by the Group in the PRC. Due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuations, we have relied on the advice and information given by the Group and its PRC legal advisers in the legal opinion confirming the legality of such rented PRC properties. All documents and leases have been used for reference only.

**VALUATION ASSUMPTIONS**

Our valuations have also been made on the assumption that the property interests are sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuations.

In valuing the property interests in Groups II and III, we relied on the advice given by the legal advisers and the PRC legal advisers of the Group that the Group has valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual Government rent/land use fees and all requisite land premium/purchase consideration payable has been fully settled.

We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time, as a portfolio.

### **VALUATION CONSIDERATIONS**

We have inspected the exterior and wherever possible, the interior of the properties included within the attached valuation certificates. During the course of our inspections, we did not note any serious defects. However, no structural survey has been conducted and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the properties and all other relevant matters.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group. Your Group has also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.



**REMARKS**

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. The exchange rates adopted are the average rates as at the date of valuation being HK\$1 = RMB1.06, USD1 = HK\$7.8 and AUD1 = HK\$5. There has been no significant fluctuation in the exchange rates between that date and the date of this letter.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,  
For and on behalf of  
**BMI APPRAISALS LIMITED**  
**Tony C.H. Cheng**  
*BSc. MUD MBA MRICS MHKIS MCI Arb AFA MIIM F.CIM*  
*Director*

*Note:* Mr. Tony C.H. Cheng is a Chartered Surveyor who has 11 years' experience in valuations of properties in Hong Kong, Macao, the People's Republic of China and the Asia-pacific region.

## SUMMARY OF VALUES

No.	Property	Open Market Value in existing state as at 30 April 2003 HK\$	Interest attributable to the Group	Value attributable to the Group as at 30 April 2003 HK\$
<b>Group I – Property interest held for owner-occupation by the Group in Australia</b>				
1.	Land and a building located at 20 Kingsley Close, Rowville, Victoria, Australia	5,800,000	100%	5,800,000
<b>Sub-total :</b>		<b>5,800,000</b>		<b>5,800,000</b>
<b>Group II – Property interest held for owner-occupation by the Group in the PRC</b>				
2.	Land, buildings and structures located at No. 328 South Section of Xiang Yang Road Liu Cheng Town Wenjiang County Chengdu City Sichuan Province the PRC	22,490,000	85%	19,116,500
<b>Sub-total :</b>		<b>22,490,000</b>		<b>19,116,500</b>
<b>Group III – Property interests held for development by the Group in the PRC</b>				
3.	A development project located at Town South Economic Area No. 328 Xiang Yang Road Liu Cheng Town Wenjiang County Chengdu City Sichuan Province the PRC	5,200,000	85%	4,420,000
4.	A development project located at Town South Economic Area No. 330 Xiang Yang Road Liu Cheng Town Wenjiang County Chengdu City Sichuan Province the PRC	10,700,000	85%	9,095,000

**APPENDIX II****PROPERTY VALUATION**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 30 April 2003 HK\$</b>	<b>Interest attributable to the Group</b>	<b>Value attributable to the Group as at 30 April 2003 HK\$</b>
5.	A development project located at Wuhan University Science Park Donghu Hi-tech Development District Wuhan City Hubei Province the PRC	25,000,000	95%	23,750,000
<b>Sub-total :</b>		<b>40,900,000</b>		<b>37,265,000</b>
<b>Group IV – Property interests rented/licenced by the Group in Hong Kong</b>				
6.	18th Floor CRE Building No. 303 Hennessy Road Wanchai Hong Kong	No Commercial Value	100%	Nil
7.	Flat B, 11th Floor Century Court No. 239 Jaffe Road Wanchai Hong Kong	No Commercial Value	100%	Nil
8.	Flat C, 15th Floor Begonia Mansion Harbour View Gardens No.8 Taikoo Wan Road Taikoo Shing Hong Kong	No Commercial Value	100%	Nil
<b>Sub-total :</b>		<b>Nil</b>		<b>Nil</b>
<b>Group V – Property interest rented by the Group in Macao</b>				
9.	Room E93, 8th Floor Hin Lei Commercial Building #16F - 16L Rua de S.Domingos Macao	No Commercial Value	100%	Nil
<b>Sub-total :</b>		<b>Nil</b>		<b>Nil</b>

No.	Property	Open Market Value in existing state as at 30 April 2003 HK\$	Interest attributable to the Group	Value attributable to the Group as at 30 April 2003 HK\$
<b>Group VI – Property interests rented by the Group in the PRC</b>				
10.	Room 724 Minguang Commercial Building No. 251 Ying Men Kow Road Chengdu City Sichuan Province the PRC	No Commercial Value	95%	Nil
11.	Rooms 502 and 503A Jinzou Building No. 63 Xian Road South Jinniu District Chengdu City Sichuan Province the PRC	No Commercial Value	85%	Nil
12.	Warehouse and offices located at Group 9 Yuejin Village Jinniu Township Jinniu District Chengdu City Sichuan Province the PRC	No Commercial Value	85%	Nil
13.	6th Floor, No. 11 Unit 2, Block No. 1 No. 149 Xiang Yang Road Wenjiang County Chengdu City Sichuan Province the PRC	No Commercial Value	100%	Nil
14.	Room 1, Block No. 48 No. 6 Fule Road Fucheng District Mianyang City Sichuan Province the PRC	No Commercial Value	95%	Nil

**APPENDIX II****PROPERTY VALUATION**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 30 April 2003 HK\$</b>	<b>Interest attributable to the Group</b>	<b>Value attributable to the Group as at 30 April 2003 HK\$</b>
15.	No. 4-2, Unit 3 No. 52 Zao Zi Lan Ya Zheng Street Yuzhong District Chongqing the PRC	No Commercial Value	95%	Nil
16.	No. 1, 8th Floor, Unit 5 Composite Building Block B2 No. 57 Songshan Road Yunyan District Guiyang City Guizhou Province the PRC	No Commercial Value	95%	Nil
17.	Room Jia A14 No. 19 Youyi Area Yuquan District Huhehaote City Inner Mongolia Autonomous Region the PRC	No Commercial Value	95%	Nil
18.	Room No. 2-5, Unit 3 Block No. 27, Da Yuan No. 59 Taoyuan Road Nanning City Guangxi Province the PRC	No Commercial Value	95%	Nil
19.	No. 47, Unit 4, Block No. 1 Shi Wei Jia Zhu Building Heng Lane Xian City Shaanxi Province the PRC	No Commercial Value	95%	Nil
20.	Rooms 6013 and 6015, 6th Floor East Building No. 27 Wenbei Lane Mo Gan Shan Road Xihu District Hangzhou City Zhejiang Province the PRC	No Commercial Value	95%	Nil

**APPENDIX II****PROPERTY VALUATION**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 30 April 2003 HK\$</b>	<b>Interest attributable to the Group</b>	<b>Value attributable to the Group as at 30 April 2003 HK\$</b>
21.	Room 203 No. 8 Donghu Road Donghu District Nanchang City Jiangxi Province the PRC	No Commercial Value	95%	Nil
22.	Room 101 No. 47 Gongyuan Lane Lanzhou City Gansu Province the PRC	No Commercial Value	95%	Nil
23.	No. 30, 202 Lane Xiao Bei Guan Street Shenhu District Shenyang City Liaoning Province the PRC	No Commercial Value	95%	Nil
24.	Unit 1 on 1st Floor Block No. 1 Da An Area No. 76 Tongjiang Street Dao Li District Harbin City Heilongjiang Province the PRC	No Commercial Value	95%	Nil
25.	No. 66 Long Quan Street Tianshan District Urumqi City Xinjiang Uygur NP Autonomous Region the PRC	No Commercial Value	85%	Nil
26.	Room 102 1st Door Block No. 9 Shibei Lane Nankai District Tianjin the PRC	No Commercial Value	95%	Nil

**APPENDIX II****PROPERTY VALUATION**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 30 April 2003 HK\$</b>	<b>Interest attributable to the Group</b>	<b>Value attributable to the Group as at 30 April 2003 HK\$</b>
27.	Room 19, Unit 2 Block No. 2 No. 161 Jiankang Road Jinshui District Zhengzhou City Henan Province the PRC	No Commercial Value	95%	Nil
28.	Room 605, Block No. 58 Anju Court Qingyang Road Hefei City Anhui Province the PRC	No Commercial Value	95%	Nil
29.	Room 3-301 Block No. 1 Dong Yuan Area No. 15 Qingyuan Street Changan District Shijiazhuang City Hebei Province the PRC	No Commercial Value	95%	Nil
30.	9th Floor Tianhe Building No. 232 Pang Liu Yang Road Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil
31.	East Door, 1st Floor Tianhe Building No. 232 Pang Liu Yang Road Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil

**APPENDIX II****PROPERTY VALUATION**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 30 April 2003 HK\$</b>	<b>Interest attributable to the Group</b>	<b>Value attributable to the Group as at 30 April 2003 HK\$</b>
32.	Block No. 288 China Science Institute – Wuhan Branch No. 44 Middle Area Xiao Hong Shan Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil
33.	Room 301, Unit 2 Block No. 36 Shou Yi Area Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil
34.	Room 204 Block No. 32 Shou Yi Area Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil
35.	Room 404, Unit 2 Block B6 Songtao Court South Lake Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil
36.	A warehouse located at No. 290 Lujia Street Wutai Gate Wuchang District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil



**APPENDIX II****PROPERTY VALUATION**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 30 April 2003 HK\$</b>	<b>Interest attributable to the Group</b>	<b>Value attributable to the Group as at 30 April 2003 HK\$</b>
37.	3rd Door, Block No. 6 Maodian Society Donghu Development District Wuhan City Hubei Province the PRC	No Commercial Value	95%	Nil
38.	Room 514, 4th Door No. 17 Tonghua Road Changchun City Jilin Province the PRC	No Commercial Value	95%	Nil
39.	Da Yuan No. 150 Daqiao Road Jinan City Shandong Province the PRC	No Commercial Value	95%	Nil
40.	Unit 401, Block A No. 88 Guohuo West Road Taijiang District Fuzhou City Fujian Province the PRC	No Commercial Value	95%	Nil
41.	Room 602, Unit 2 Block No. 15 Yaniang Garden Xiaguan District Nanjing City Jiangsu Province the PRC	No Commercial Value	95%	Nil
42.	Room 110, Block No. 30 Guanjing Xin Estate Suzhou City Jiangsu Province the PRC	No Commercial Value	95%	Nil
43.	Room 1-1201, Block No. 3 Yuan No. 20, Si Tiao Jia Dong Tie Ying Shun Fengtai District Beijing the PRC	No Commercial Value	95%	Nil

**APPENDIX II****PROPERTY VALUATION**

No.	Property	Open Market Value in existing state as at 30 April 2003 <i>HK\$</i>	Interest attributable to the Group	Value attributable to the Group as at 30 April 2003 <i>HK\$</i>
44.	4th Floor, Block No. 13 No. 330 Ying Ze Da Street Taiyuan City Shanxi Province the PRC	No Commercial Value	95%	Nil
45.	Room 810, Block No. 13 Changmao Garden No. 39 Nansha Road (known as Nanhang Road) Haikou City Hainan Province the PRC	No Commercial Value	95%	Nil
46.	Room 606 No. 112. Lianhua Road Foshan City Guangdong Province the PRC	No Commercial Value	95%	Nil
47.	Room 302, Unit 3 Block No. 4 Xinyue Area Yinchuan City Ningxia Hui Autonomous Region the PRC	No Commercial Value	95%	Nil
48.	Room 102-A, No. 202 58 Lane, Mian Bei Road Zhang Jiang Town Pudong New District Shanghai the PRC	No Commercial Value	100%	Nil
49.	Room 01, 12th Floor Hui Jin Building No. 515 Hankou Road Shanghai the PRC	No Commercial Value	95%	Nil
	<b>Sub-total:</b>	<b>Nil</b>		<b>Nil</b>
	<b>Total:</b>	<b>69,190,000</b>		<b>62,181,500</b>

## VALUATION CERTIFICATE

## Group I – Property interest held for owner-occupation by the Group in Australia

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
1. Land and a building located at 20 Kingsley Close, Rowville, Victoria, Australia  Whole of Lot 9 LP 216274	<p>The property is situated within an established industrial zone at Rowville on the outer eastern region of the Central Business District (“CBD”) of Melbourne. It is within about 20 minutes’ driving distance from the CBD of Melbourne.</p> <p>The property comprises a parcel of roughly trapezium-shaped leveled land upon which a warehouse building with part of it containing a 2-level office completed in about 2002 was erected.</p> <p>The land contains a site area of approximately 1,309 sq.m. and is zoned as “Industrial 1” under the local town plan zoning.</p> <p>The total building area of the property is approximately 940 sq.m. inclusive of the 2-level office with a building area of approximately 235 sq.m..</p> <p>Car parking facility includes 9 external car parking spaces and 4 covered car parking spaces inclusive of a disabled car parking space.</p> <p>The land use rights of the property were granted for a term in perpetuity.</p>	The property is currently vacant and shall be occupied by the Group for research and development purpose.	5,800,000  (100% interest attributable to the Group: 5,800,000)

*Notes:–*

1. The property registered under a Certificate of Title Volume 9892 Folio 110 with all its estate in fee simple was transferred to Darsawye Pty Ltd (“Darsawye”) at a consideration of AUD925,000.
2. Darsawye is a wholly owned subsidiary of the Company.
3. We have prepared our valuation on the following assumptions:–
  - a. Darsawye is in possession of a proper legal title to the property and is entitled to transfer the property at no extra land premium or other onerous payment payable to the government;
  - b. All land premium and other costs of ancillary utility services have been settled in full;
  - c. The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - d. The property may be disposed of freely to both local and overseas purchasers.

## VALUATION CERTIFICATE

## Group II – Property interest held for owner-occupation by the Group in the PRC

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
2. Land, buildings and structures located at No. 328 South Section of Xiang Yang Road Liu Cheng Town Wenjiang County Chengdu City Sichuan Province the PRC	<p>The property comprises a parcel of land (lot no.: 1/23/34) with a total site area of approximately 26,657.5 sq.m. upon which seven buildings and other structures have been erected.</p> <p>The buildings include a security room, a research and development building, two production workshops, an electric plant room, a plant and machinery maintenance room and a boiler's room which have been completed in about 2001 with a total gross floor area of approximately 8,103.93 sq.m. (87,231 sq.ft.).</p> <p>Other structures include an alcohol storeroom and a water pump room, which have been completed in about 2001.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 25 December 2050.</p>	The property is currently occupied by the Group for industrial and ancillary office purposes.	22,490,000  (85% interest attributable to the Group: 19,116,500)

## Notes:–

- Pursuant to three State-owned Land Use Rights Grant Contracts, Wen Guo Tu (2000) Grant Contract Nos. 103, 104 and 105 entered into between Wenjiang County Land Administration Bureau and Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Vital Pharmaceuticals (Sichuan) Co., Ltd. ("Sichuan Pharmaceutical"), the former has agreed to grant to the latter the land use rights of the property at a total land premium of RMB3,738,671.17 for a term of 50 years.
- Pursuant to a State-owned Land Use Rights Certificate, Wen Guo Yong (2002) Zi Di No. 3309, issued by Wenjiang County Land Resources Bureau dated 15 March 2002, the land use rights of the property with a site area of 26,657.5 sq.m. is legally owned by Sichuan Pharmaceutical, for a term expiring on 25 December 2050 for industrial purposes.
- Pursuant to two Building Ownership Certificates, Wen Fang Quan Zheng Jian Quan Zi Di Nos. 0013949 and 0013950, both dated 22 March 2001, seven buildings with a total gross floor area of 8,103.93 sq.m. are legally owned by Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical.
- Sichuan Pharmaceutical is an indirect 85%-owned subsidiary of the Company.
- Pursuant to a Mortgage Contract. 2002 Cao Shi (Di) Zi Di No. 0009 and a Foreign Exchange Loan Contract, 2003 (Cao Shi) Zi Di No. 0075, dated 19 March 2002 and 21 March 2003 respectively, entered into between Sichuan Pharmaceutical and Industrial and Commercial Bank of China – Sichuan Branch Sales Department Caoshi Sub-branch, the former has mortgaged the buildings of the property for a loan amount of USD500,000 for a term of 12 months commencing on 21 April 2003 which was the draw-down date of the loan.

6. Pursuant to a Mortgage Contract, 2001 Cao Xiang Zi Di No. 02, and a Fixed Asset Loan Contract, 2001 Cao Xiang Zi Di No. 02, both dated 29 June 2001, entered into between Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical, and Industrial and Commercial Bank of China – Sichuan Branch Sales Department Caoshi Sub-branch, the former has mortgaged the land use rights of the property for a loan amount of RMB8,000,000 for a term of 48 months from 29 June 2001 to 28 June 2005.
7. Pursuant to a Mortgage Contract, 2002 Cao Shi (Di) Zi Di No. 0009, and a Fixed Asset Loan Contract, 2001 Cao Xiang Zi Di No. 01, dated 19 March 2002 and 29 June 2001 respectively, entered into between Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical, and Industrial and Commercial Bank of China – Sichuan Branch Sales Department Caoshi Sub-branch, the former has mortgaged the buildings of the property for a loan amount of RMB7,000,000 for a term of 36 months from 29 June 2001 to 28 June 2004.
8. The opinion given by the PRC legal adviser to the Company contains, inter alia, the following:
- a. The property is legally vested in Sichuan Pharmaceutical;
  - b. The property can be used, let, transferred or mortgaged freely by Sichuan Pharmaceutical; and
  - c. The use of the property is in compliance with the designated use stated in the State-owned Land Use Rights Certificate and Building Ownership Certificates.
9. The status of title and grant of major approvals provided by the Company is as follows:
- |   |     |
|---|-----|
| State-owned Land Use Rights Grant Contracts | Yes |
| State-owned Land Use Rights Certificate     | Yes |
| Building Ownership Certificates             | Yes |
| Business Licence                            | Yes |
10. We have prepared our valuation on the following assumptions:
- a. Sichuan Pharmaceutical is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - b. All land premium and other costs of ancillary utility services have been settled in full;
  - c. The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - d. The property may be disposed of freely to both local and overseas purchasers.

## VALUATION CERTIFICATE

## Group III – Property interests held for development by the Group in the PRC

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
3. A development project located at Town South Economic Area No. 328 Xiang Yang Road Liu Cheng Town Wenjiang County Chengdu City Sichuan Province the PRC	<p>The property comprises a parcel of land (lot no. 1/23/35), which is a rectangular-shaped piece of leveled land with a site area of approximately 12,288.5 sq.m., upon which a building is undergoing internal refurbishment.</p> <p>The building will be a 3-storey composite building with a gross floor area of approximately 1,664 sq.m. (17,911 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 25 March 2051.</p>	The property is currently completed and under internal decoration.	<p>5,200,000</p> <p>(85% interest attributable to the Group: 4,420,000)</p>

*Notes:–*

1. Pursuant to a State-owned Land Use Rights Grant Contract, Wen Guo Tu (2001) Grant Contract No. 20 entered into between Wenjiang Land Administration Bureau and Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical, dated 21 February 2001, the former has agreed to grant to the latter the land use rights of the property at a land premium of RMB1,762,657.8 for a term of 50 years. Other salient development terms and conditions are listed as below:
  - a. Development Use : Production workshop
  - b. Building covenant : The approved scheme shall be developed within 2 years from the date of signing the respective State-owned Land Use Rights Grant Contract.
2. Pursuant to a State-owned Land Use Rights Certificate, Wen Guo Yong (2002) Zi Di No. 3404, issued by Wenjiang County Land Resources Bureau dated 15 March 2002, the land use rights of the property with a site area of 12,288.5 sq.m. is legally owned by Sichuan Pharmaceutical, for a term expiring on 25 March 2051 for industrial purposes.
3. Pursuant to a Construction Works Planning Permit, Cheng Gui Guan (2002) Di No. 106, issued by Wenjiang County Planning Bureau dated 11 November 2002, a composite building with a gross floor area of 1,664 sq.m. is permitted to be developed by Sichuan Pharmaceutical on the property.
4. Pursuant to a Construction Works Commencement Permit, No. 510123200212300301, issued by Wenjiang County City and Village Construction Bureau dated 30 December 2002, a composite building with a gross floor area of 1,664 sq.m. is permitted to be constructed by Sichuan Pharmaceutical on the property.
5. As per information provided by the Company, the development details of the project are summarized as follows:
  - a. Existing stage of development : The construction works of the building is completed and under internal decoration as at the date of valuation.
  - b. Estimated cost of carrying out/completing the development : The total cost of the project estimated is approximately RMB3,000,000 out of which an amount approximate to RMB2,000,000 has been expended up to the date of valuation.

- c. Estimated capital value after completion : The capital value of the project upon completion is estimated to be RMB5,500,000.
6. As advised by the Company, the major construction works have been completed whereas the property is still under internal decoration. The Company will apply for the Building Ownership Certificate after the completion of the decoration works. The Directors expect that the Building Ownership Certificate should be issued to the Company within 6 months after the application has been made.
7. Sichuan Pharmaceutical is an indirect 85%-owned subsidiary of the Company.
8. Pursuant to a Mortgage Contract, 2001 Cao Xiang Zi Di No. 02, and a Fixed Asset Loan Contract, 2001 Cao Xiang Zi Di No. 02, both dated 29 June 2001, entered into between Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical, and Industrial and Commercial Bank of China – Sichuan Branch Sales Department Caoshi Sub-branch, the former has mortgaged the land use rights of the property for a loan amount of RMB8,000,000 for a term of 48 months from 29 June 2001 to 28 June 2005.
9. The opinion given by the PRC legal adviser to the Company contains, inter alia, the following:
- a. Sichuan Pharmaceutical has undertaken all the necessary planning and commencement procedures for the construction of the composite building of which land use rights are vested in Sichuan Pharmaceutical and therefore legally holds the rights to develop and construct the property;
  - b. Sichuan Pharmaceutical legally holds the land use rights of the property; and
  - c. There would be no legal impediment for Sichuan Pharmaceutical to obtain the Building Ownership Certificate of the property after the completion of the development.
10. The status of title and grant of major approvals provided by the Company is as follows:
- |  |     |
|--|-----|
| State-owned Land Use Rights Grant Contract | Yes |
| State-owned Land Use Rights Certificate    | Yes |
| Building Ownership Certificate             | No  |
| Construction Works Planning Permit         | Yes |
| Construction Works Commencement Permit     | Yes |
| Business Licence                           | Yes |
11. We have prepared our valuation on the following assumptions:
- a. Sichuan Pharmaceutical is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - b. All land premium and other costs of ancillary utility services have been settled in full;
  - c. The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - d. The property may be disposed of freely to both local and overseas purchasers.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
4. A development project located at Town South Economic Area No. 330 Xiang Yang Road Liu Cheng Town Wenjiang County Chengdu City Sichuan Province the PRC	<p>The property comprises a parcel of land (lot no. 1/23/20), which is a rectangular-shaped piece of leveled land with a site area of approximately 18,626.7 sq.m., upon which a research and development building is being constructed.</p> <p>The building will be a single-storey a research building with a total gross floor area of approximately 3,125 sq.m. (33,638 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 20 February 2051.</p>	The property is currently under construction.	10,700,000  (85% interest attributable to the Group: 9,095,000)

*Notes:—*

1. Pursuant to two State-owned Land Use Rights Grant Contracts, Wen Guo Tu (2001) Grant Contract Nos. 16 and 44 entered into between Wenjiang County Land Administration Bureau and Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical, dated 21 February 2001 and 26 March 2001 respectively, the former has agreed to grant to the latter the land use rights of the property at a total land premium of RMB2,977,896.12 for a term of 50 years. Other salient development terms and conditions are listed as below:
  - a. Development Use : Industrial Production and Office and ancillary facilities
  - b. Building covenant : The approved scheme shall be developed within 2 years from the date of signing the respective State-owned Land Use Rights Grant Contracts.
2. Pursuant to a State-owned Land Use Rights Certificate, Wen Guo Yong (2002) Zi Di No. 3403, issued by Wenjiang County Land Resources Bureau dated 15 March 2002, the land use rights of the property with a site area of 18,626.7 sq.m. is legally owned by Sichuan Pharmaceutical, for a term expiring on 20 February 2051 for industrial purposes.
3. Pursuant to a Construction Works Planning Permit, Cheng Gui Guan (2002) Di No. 107, issued by Wenjiang County Planning Bureau dated 11 November 2002, a research and development building with a gross floor area of 3,125 sq.m. is permitted to be developed by Vital (Sichuan) Biotech Co., Ltd. ("Sichuan Research") on the property.
4. Pursuant to a Construction Works Commencement Permit, No. 510123200212300201, issued by Wenjiang County City and Village Construction Bureau dated 30 December 2002, a research and development building with a gross floor area of 3,165 sq.m. is permitted to be constructed by Sichuan Research on the property.
5. As per information provided by the Company, the development details of the project are summarized as follows:
  - a. Existing stage of development : The building is about 55% completed as at the date of valuation.
  - b. Estimated completion date : The building is expected to be completed in about January 2004.



- c. Estimated cost of carrying out/completing the development : The total cost of the project estimated is approximately RMB14,400,000 out of which an amount approximate to RMB10,000,000 has been expended up to the date of valuation.
- d. Estimated capital value after completion : The capital value of the project upon completion is estimated to be RMB15,000,000.
6. As advised by the Company, the Building Ownership Certificate will be applied upon the completion of the development. The Directors expect that the Building Ownership Certificate should be issued to the Company within 6 months after the application has been launched.
7. Sichuan Pharmaceutical is an indirect 85%-owned subsidiary of the Company whereas Sichuan Research is an indirect wholly owned subsidiary of the Company.
8. Pursuant to a Mortgage Contract, 2001 Cao Xiang Zi Di No. 02, and a Fixed Asset Loan Contract, 2001 Cao Xiang Zi Di No. 02, both dated 29 June 2001, entered into between Sichuan Kangbai Pharmacy Co., Ltd., which is currently known as Sichuan Pharmaceutical, and Industrial and Commercial Bank of China – Sichuan Branch Sales Department Caoshi Sub-branch, the former has mortgaged the land use rights of the property for a loan amount of RMB8,000,000 for a term of 48 months from 29 June 2001 to 28 June 2005.
9. Pursuant to an agreement (the “Agreement”) dated 3 March 2003 entered into between Sichuan Research and Sichuan Pharmaceutical, the former will transfer the building portion of the property to the latter at cost after completion of the development. The former will continue to pay for the remaining construction works of the development until completion of the project. The building ownership of the completed development will be registered under the name of the latter.
10. The opinion given by the PRC legal adviser to the Company contains, inter alia, the following:
- Sichuan Research has undertaken all the necessary planning and commencement procedures for the construction of the research and development building of which is land use rights are vested in Sichuan Pharmaceutical and therefore legally holds the rights to develop and construct the property;
  - The aforesaid Agreement between Sichuan Research and Sichuan Pharmaceutical is legally valid;
  - Sichuan Pharmaceutical legally holds the land use rights of the property; and
  - There would be no legal impediment for Sichuan Pharmaceutical to obtain the Building Ownership Certificate of the property after completion of the development.
11. The status of title and grant of major approvals provided by the Company is as follows:
- |   |     |
|---|-----|
| State-owned Land Use Rights Grant Contracts | Yes |
| State-owned Land Use Rights Certificate     | Yes |
| Building Ownership Certificate              | No  |
| Construction Works Planning Permit          | Yes |
| Construction Works Commencement Permit      | Yes |
| Business Licence                            | Yes |
12. We have prepared our valuation on the following assumptions:
- Sichuan Pharmaceutical and Sichuan Research are in possession of a proper legal title to the property and are entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - All land premium and other costs of ancillary utility services have been settled in full;
  - The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - The property may be disposed of freely to both local and overseas purchasers.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
5. A development project located at Wuhan University Science Park Donghu Hi-tech Development District Wuhan City Hubei Province the PRC	<p>The property comprises a parcel of land with a site area of 34,844.72 sq.m. upon which a factory complex will be developed under two phases (referred to as Phase I and Phase II).</p> <p>Phase I comprises four buildings and other structures under construction. The buildings include a production workshop, an office complex, a power workshop and a staff training center and canteen with a total gross floor area of approximately 13,692 sq.m.. Other structures include a pump room, a main entrance and a sewage treatment plant room.</p> <p>Phase II is proposed to comprise two buildings and other structures to be completed in about June 2004. The buildings will include a genetic engineering laboratory, an animal house and a production workshop.</p> <p>The land use rights of the property have been granted for a term expiring on 30 August 2072.</p>	Phase I of the property is currently under construction whereas construction works on Phase II have not yet commenced.	25,000,000  (95% interest attributable to the Group: 23,750,000)

*Notes:-*

- Pursuant to a Land Transfer Agreement entered into between 武漢弘博高校設施投資開發有限責任公司 and Wuhan Tianao Pharmaceuticals Co., Ltd., which is currently known as Wuhan Weiao Pharmaceuticals Co., Ltd. ("Wuhan Weiao") dated 6 May 2002, the former has agreed to grant to the latter the land use rights of the property at a consideration of RMB13,750,000.
- Pursuant to a State-owned Land Use Rights Certificate, Wu Xin Guo Yong (2003) Zi Di No. 010, issued by Wuhan City Land Resources Bureau dated 29 January 2003, the land use rights of the property with a site area of 34,844.72 sq.m. is legally owned by Wuhan Weiao for a term expiring on 30 August 2072 for industrial purposes.
- Pursuant to two Construction Works Planning Permits, Nos. 0507344 and 0507352, issued by Wuhan City Planning Administration Bureau Donghu Hi-tech Development District Division dated 2 September 2002 and 3 December 2002 respectively, a staff training and activity center with a gross floor area of 6,317 sq.m. and Phase I of Tianao Pharmaceutical Factory with a gross floor area of 7,300 sq.m. are permitted to be developed by Wuhan Tianao Pharmaceuticals Co., Ltd. , which is currently known as Wuhan Weiao on the property.
- Pursuant to a Construction Works Commencement Permit, No. 420108200207260101, issued by Wuhan Donghu Hi-tech Development District Construction Market Administration Division dated 18 September 2002, a GMP alteration project with a gross floor area of 13,692 sq.m. is permitted to be constructed by Wuhan Tianao Pharmaceuticals Co., Ltd. , which is currently known as Wuhan Weiao on the property.
- Wuhan Weiao is an indirect 95%-owned subsidiary of the Company.

6. As per information provided by the Company, the development details of the project are summarized as follows:
- a. Existing stage of development : Phase I is about 75% completed whereas the construction works on Phase II have not commenced as at the date of valuation.
  - b. Estimated completion date : Phase I is expected to be completed in about July 2003.
  - c. Estimated cost of carrying out/completing the development : The total cost of Phase I estimated is approximately RMB32,000,000 out of which an amount approximate to RMB24,420,000 has been expended up to the date of valuation whereas the total cost of Phase II has not been estimated up to the date of valuation.
  - d. Estimated capital value after completion : The capital value upon completion of Phase I is estimated to be RMB40,000,000.
7. As advised by the Company, the Building Ownership Certificate will be applied upon the completion of the development. The Directors expect that the Building Ownership Certificate should be issued to the Company within 6 months after the application has been launched.
8. The opinion given by the PRC legal adviser to the Company contains, inter alia, the following:
- a. The property is legally vested in Wuhan Weiao; and
  - b. The property can be let, transferred, or mortgaged freely by Wuhan Weiao within terms of land use rights granted.
9. The status of title and grant of major approvals provided by the Company is as follows:
- |  |     |
|--|-----|
| Land Transfer Agreement                    | Yes |
| State-owned Land Use Rights Grant Contract | N/A |
| State-owned Land Use Rights Certificate    | Yes |
| Building Ownership Certificate             | No  |
| Construction Works Planning Permits        | Yes |
| Construction Works Commencement Permit     | Yes |
| Business Licence                           | Yes |
10. We have prepared our valuation on the following assumptions:
- a. Wuhan Weiao is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - b. All land premium and other costs of ancillary utility services have been settled in full;
  - c. The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - d. The property may be disposed of freely to both local and overseas purchasers.

## VALUATION CERTIFICATE

## Group IV – Property interests rented/licenced by the Group in Hong Kong

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
6. 18th Floor CRE Building No. 303 Hennessy Road Wanchai Hong Kong	<p>The property comprises the office space occupying the whole 18th floor of a 28-storey office building completed in about 1995.</p> <p>The gross floor area of the property is approximately 325.16 sq.m. (3,500 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 16 May 2002 for a term of 2 years commencing on 2 May 2002 and expiring on 1 May 2004 (both days inclusive) at a monthly rent of \$34,230 exclusive of rates, government rent, management charges, air-conditioning charges and other outgoings with an option on the part of the Group to renew for a further term of 2 years at the then open market rent.</p> <p>Under the said tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Notes:–*

1. According to the tenancy agreement, the tenant of the property is Wide Triumph Limited, which is an indirect wholly owned subsidiary of the Company.
2. According to the tenancy agreement, the tenant is entitled to the following rent-free periods:
  - from 2 May 2002 to 1 June 2002;
  - from 2 June 2002 to 1 July 2002;
  - from 2 May 2003 to 1 June 2003; and
  - from 2 April 2004 to 1 May 2004.

During the rent-free periods, the tenant shall be responsible to bear and pay for all payments of rates, management charge, air-conditioning charges and all other outgoings arising from the property.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
7. Flat B, 11th Floor Century Court No. 239 Jaffe Road Wanchai Hong Kong	<p>The property comprises an apartment unit on the 11th floor of a 20-storey apartment building completed in about 1998.</p> <p>The gross floor area of the property is approximately 55.74 sq.m. (600 sq.ft.).</p> <p>The property is licenced by the Group from an independent third party licensor under a licence agreement dated 10 March 2003 for a term of 6 months and 16 days commencing on 16 December 2002 and expiring on 30 June 2003 at a monthly licence fee of \$15,500 inclusive of management fees, government rent, rates, housekeeping services and supply of gas, water and telephone line charges but exclusive of electricity and IDD calls charges.</p> <p>Under the licence agreement, the property is permitted to be used for lodging purposes only.</p>	The property is currently used by the Group as Director's quarter.	No Commercial Value

*Note:—*

1. According to the licence agreement, the licensee of the property is Wide Triumph Limited, which is an indirect wholly owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
8. Flat C, 15th Floor Begonia Mansion Harbour View Gardens, No. 8 Taikoo Wan Road Taikoo Shing Hong Kong	<p>The property comprises a residential unit on the 15th floor of a 32-storey residential building completed in about 1985.</p> <p>The gross floor area of the property is approximately 74.32 sq.m. (800 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 February 2002 for a term of 2 years commencing on 5 February 2002 and expiring on 4 February 2004 (both days inclusive) at a monthly rent of \$22,000 inclusive of rates, management charges and all outgoings but exclusive of water, electricity, gas and telephone and other similar charges payable in respect of the property.</p> <p>Under the tenancy agreement, the property is permitted to be used for residential purposes only.</p>	The property is currently used by the Group as Director's quarter.	No Commercial Value

*Notes:-*

1. According to the tenancy agreement, the tenant of the property is Yugofoil Holdings Limited, which is a wholly owned subsidiary of the Company.
2. According to the tenancy agreement, the tenant is entitled to a rent-free period of four days from 1 February 2002 to 4 February 2002 provided that the tenant is responsible for the charges of water, electricity, gas, telephone and other outgoings payable in respect of the property during such rent-free period.
3. According to the tenancy agreement, the tenant has agreed that the property or any part thereof shall be occupied by the directors of Yugofoil Holding Limited and their immediate family members.
4. Under the tenancy agreement, the tenant is entitled to terminate the tenancy agreement by serving not less than one month's written notice or by paying one month's rent in lieu to the Landlord after the expiry of the first 12 months of the term.

## VALUATION CERTIFICATE

## Group V – Property interest rented by the Group in Macao

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
9. Room E93 8th Floor Hin Lei Commercial Building #16F-16L Rua de S.Domingos Macao	<p>The property comprises an office unit on the 8th floor of an 8-storey office building completed in about 1990.</p> <p>The saleable area of the property is approximately 25.87 sq.m. (278 sq.ft.)</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 3 October 2002 for a term of 2 years commencing on 1 October 2002 and expiring on 30 September 2004 at a monthly rent of \$2,200 exclusive of management fee, which is \$300 per month, water and electricity charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:–*

1. According to the tenancy agreement, the tenant of the property is Beshabar (Macao Commercial Offshore) Ltd., which is an indirect wholly owned subsidiary of the Company.

## VALUATION CERTIFICATE

## Group VI – Property interests rented by the Group in the PRC

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
10. Room 724 Minguang Commercial Building No. 251 Ying Men Kow Road Chengdu City Sichuan Province the PRC	<p>The property comprises an office unit on the 7th floor of a 10-storey commercial building completed in about 1998.</p> <p>The gross floor area of the property is approximately 37.52 sq.m. (404 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 2 years commencing on 5 January 2003 and expiring on 4 January 2005 at a monthly rent of RMB720 exclusive of water and electricity charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:–*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.



## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
11. Rooms 502 and 503A Jinzou Building No. 63 Xian Road South Jinniu District Chengdu City Sichuan Province the PRC	<p>The property comprises two office units on the 5th floor of an 8-storey office building (including a level of basement) completed in about 2000.</p> <p>The total gross floor area of the property is approximately 411.67 sq.m. (4,431 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 10 August 2001 for a term of 2 years commencing on 15 September 2001 and expiring on 14 September 2003 at a monthly unit rent of RMB28 per sq.m. amounting to an annual rent of RMB138,321 inclusive of management fee and maintenance fee for public facilities and is subject to rent review as stated in Note No. 2.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value
	Under the Tenancy agreement, the property is permitted to be used for office purposes only.		

*Notes:—*

1. According to the tenancy agreement, the tenant of the property is Sichuan Pharmaceutical, which is an indirect 85%-owned subsidiary of the Company.
2. According to the tenancy agreement, the monthly unit rent of the second year will be the monthly unit rent of the first year plus RMB2 per sq.m..

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
12. Warehouse and Offices located at Group 9 Yuejin Village Jinniu Township Jinniu District Chengdu City Sichuan Province the PRC	<p>The property comprises a warehouse and 36 office units in a 2-storey warehouse building completed in about 2000.</p> <p>The gross floor area of the warehouse is approximately 990 sq.m. (10,656 sq.ft.) whereas the total gross floor area of the ancillary offices is approximately 1,007 sq.m. (10,839 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 24 October 2002 for a term of 9 years commencing on 11 July 2002 and expiring on 10 July 2011 at a monthly rent of RMB16,000 exclusive of water and electricity charges and is subject to rent review as stated in Note No.2.</p>	The property is currently occupied by the Group for warehouse and ancillary office purposes.	No Commercial Value
	<p>Under the tenancy agreement, the property is permitted to be used for warehouse and office purposes only.</p>		

*Notes:-*

1. According to the tenancy agreement, the tenant of the property is Sichuan Pharmaceutical, which is an indirect 85%-owned subsidiary of the Company.
2. According to the tenancy agreement, the monthly rent of the tenancy upon the sixth year will be reviewed subject to further agreement by both parties.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
13. 6th Floor, No. 11, Unit 2 Block No. 1 No. 149 Xiang Yang Road Wenjiang District Chengdu City Sichuan Province the PRC	<p>The property comprises a residential unit on the 6th floor of a 6-storey residential building completed in about 1995.</p> <p>The gross floor area of the property is approximately 120.1 sq.m. (1,293 sq.ft.)</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 7 August 2002 for a term of 1 year commencing on 7 August 2002 and expiring on 6 August 2003 at a monthly rent of RMB550 exclusive of water, electricity, telephone, television and sanitary charges and management fees.</p> <p>Under the tenancy agreement, the property is permitted to be used for residential purpose only.</p>	The property is currently occupied by the Group as staff dormitory.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Sichuan Research, which is an indirect wholly owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
14. Room 1 Block No. 48 No. 6 Fule Road Fucheng District Mianyang City Sichuan Province the PRC	<p>The property comprises a residential unit on the 4th floor of a 7-storey residential building completed in about 1987.</p> <p>The gross floor area of the property is 75.67 sq.m. (815 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 4 March 2003 for a term of 1 year commencing on 5 March 2003 and expiring on 4 March 2004 at a monthly rent of RMB600 exclusive of water, electricity, gas, telephone, sanitary and security charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
15. No. 4-2, Unit 3 No. 52 Zao Zi Lan Ya Zheng Street Yuzhong District Chongqing the PRC	<p>The property comprises a residential unit on the 1st floor of a 7-storey residential building completed in about 1991.</p> <p>The gross floor area of the property is approximately 78.56 sq.m. (846 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 25 January 2003 for a term of 1 year commencing on 25 January 2003 and expiring on 24 January 2004 at a monthly rent of RMB1,800 inclusive of management fee but exclusive of water, electricity, gas, telephone, sanitary and security charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:* –

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
16. No. 1, 8th Floor Unit 5 Composite Building Block B2 No. 57 Songsshan Road Yunyan District Guiyang City Guizhou Province the PRC	<p>The property comprises a residential unit on the 8th floor of a 8-storey residential building completed in about 1995.</p> <p>The gross floor area of the property is approximately 81.05 sq.m. (872 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 15 January 2003 for a term of 1 year commencing on 15 January 2003 and expiring on 14 January 2004 at a monthly rent of RMB1,000 exclusive of water, electricity, sanitary, telephone, gas and cable TV charges.</p> <p>Under the Tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:* –

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
17. Room Jia A14 No. 19 Youyi Area Yuquan District Huhehaote City Inner Mongolia Autonomous Region the PRC	<p>The property comprises an office unit on the ground floor of a 6-storey commercial building completed in about 1997.</p> <p>The gross floor area of the property is approximately 54 sq.m. (581 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 3 January 2003 for a term of 2 years commencing on 3 January 2003 and expiring on 2 January 2005 at a monthly rent of RMB500 exclusive of water, electricity and heating charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
18. Room No. 2-5, Unit 3 Block No. 27 Da Yuan No. 59 Taoyuan Road Nanning City Guangxi Province the PRC	<p>The property comprises an residential unit on the 1st floor of a 6-storey residential building completed in about 1985.</p> <p>The gross floor area of the property is approximately 64.58 sq.m. (695 sq.ft.).</p> <p>The property is rented by the Group from a an independent third party landlord under a tenancy agreement dated 16 January 2003 for a term of 1 year commencing on 1 January 2003 and expiring on 31 December 2003 at a monthly rent of RMB700 exclusive of water and electricity charges, management fee and sanitary charge.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.



## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
19. No. 47, Unit 4 Block No. 1 Shi Wei Jia Zhu Building Heng Lane Xian City Shanxi Province the PRC	<p>The property comprises a residential unit on the 3rd floor of a 6-storey residential building completed in about May 2002.</p> <p>The gross floor area of the property is approximately 79.10 sq.m. (851 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 17 January 2003 for a term of 3 years commencing on 17 January 2003 and expiring on 16 January 2006 at a monthly rent of RMB1,200 exclusive of water and electricity charges, management fee, telephone charges, cable TV, and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purpose only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
20. Rooms 6013 and 6015 6th Floor East Building No. 27 Wenbei Road Mo Gan Shan Road Xihu District Hangzhou City Zhejiang Province the PRC	<p>The property comprises two office units on the 6th floor of a 7-storey commercial building completed in about 1985.</p> <p>The gross floor area of the property is approximately 82.13 sq.m. (884 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 1 year commencing on 1 January 2003 and expiring on 31 December 2003 at a monthly rent of RMB1,500 exclusive of electricity charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co, Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
21. Room 203 No. 8 Donghu Road Donghu District Nanchang City Jiangxi Province the PRC	<p>The property comprises a residential unit on the 2nd floor of a 7-storey residential building completed in about 1993.</p> <p>The gross floor area of the property is approximately 115.51 sq.m. (1,243 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 2 years commencing on 1 January 2003 and expiring on 1 January 2005 at a monthly rent of RMB500 exclusive of water and electricity charges and telephone charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
22. Room 101 No. 47 Gongyuan Lane Lanzhou City Gansu Province the PRC	<p>The property comprises a residential unit on the ground floor of a 9-storey residential building completed in about 1999.</p> <p>The gross floor area of the property is approximately 67.83 sq.m. (730 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 15 February 2003 for a term of 1 year commencing on 15 March 2003 and expiring on 16 March 2004 at an annual rent of RMB9,600 exclusive of water, electricity, heating, television and sanitary charges and management fee and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
23. No. 30, 202 Lane Xiao Bei Guan Street Shenhu District Shenyang City Liaoning Province the PRC	<p>The property comprises a residential unit on the 3rd floor of a 6-storey residential building completed in about 1998.</p> <p>The gross floor area of the property is approximately 105.9 sq.m. (1,133 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 13 February 2003 for a term of 1 quarter commencing on 15 February 2003 and expiring on 15 May 2003 which has been renewed under a tenancy renewal agreement dated 15 May 2003 for a term of 6 months commencing on 15 May 2003 to 15 November 2003 at a monthly rent of RMB1,200 inclusive of heating charges but exclusive of water and electricity charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement and the tenancy renewal agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
24. Unit 1, 1st Floor Block No. 1 Da An Area No. 76 Tong Jiang Street Dao Li District Harbin City Heilongjiang Province the PRC	<p>The property comprises a residential unit on the 1st floor of a 6-storey residential building completed in about 1984.</p> <p>The gross floor area of the property is approximately 37 sq.m. (398 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 1 year commencing on 1 January 2003 and expiring on 1 January 2004 at a monthly rent of RMB1,000 exclusive of water, electricity, gas, telephone, sanitary charges and security charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
25. No. 66 Long Quan Street Tianshan District Urumqi City Xinjiang Uygur Autonomous Region the PRC	<p>The property comprises a residential unit on the 2nd floor of a 7-storey residential building completed in about 1996.</p> <p>The gross floor area of the property is approximately 62 sq.m. (667 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 6 January 2003 for a term of 1 year commencing on 6 January 2003 and expiring on 5 January 2004 at a monthly rent of RMB700 exclusive of water, electricity, heating, gas and television charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
26. Room 102 1st Door Block No. 9 Shibei Lane Nankai District Tianjin the PRC	<p>The property comprises a residential unit on the 1st floor of a 6-storey residential building completed in about 1996.</p> <p>The gross floor area of the property is approximately 45.12 sq.m. (486 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 14 January 2003 for a term of 1 year commencing on 15 January 2003 and expiring on 14 January 2004 at a monthly rent of RMB1,280 exclusive of water, electricity, heating and sanitary charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.



## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
27. Room 19, Unit 2 Block No. 2 No. 161 Jiankang Road Jinshui District Zhengzhou City Henan Province the PRC	<p>The property comprises an residential unit on the 3rd floor of a 7-storey residential building completed in about 1996.</p> <p>The gross floor area of the property is approximately 132.84 sq.m. (1,430 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 8 January 2003 for a term of 1 year commencing on 8 January 2003 and expiring on 7 January 2004 at a monthly rent of RMB1,000 exclusive of water, electricity and heating charges and management fee and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:-*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
28. Room 605, Block No. 58 Anju Court Qingyang Road Hefei City Anhui Province the PRC	<p>The property comprises a residential unit on the 6th floor of a 6-storey residential building completed in about 1996.</p> <p>The gross floor area of the property is approximately 104.97 sq.m. (1,130 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 13 February 2003 for a term of 2 years commencing on 13 February 2003 and expiring on 12 February 2005 at a monthly rent of RMB750.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
29. Room 3-301 Block No. 1 Dong Yuan Area No. 15 Qingyuan Street Changan District Shijiazhuang City Hubei Province the PRC	<p>The property comprises a residential unit on the 3rd floor of a 7-storey residential building completed in about 1992.</p> <p>The gross floor area of the property is approximately 61.69 sq.m. (664 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 2 years commencing on 1 January 2003 and expiring on 30 December 2004 at a monthly rent of RMB800 exclusive of water, electricity, heating, gas, telephone, cable TV and sanitary charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
30. 9th Floor Tianhe Building No. 232 Pang Liu Yang Road Wuchang District Wuhan City Hubei Province the PRC	<p>The property comprises an office unit occupying the whole 9th floor of a 9-storey office building completed in about 1995.</p> <p>The gross floor area of the property is approximately 766.65 sq.m. (8,252 sq.ft.).</p> <p>The property is rented by the Group from the landlord, which is a connected person of the Company (please refer to paragraph headed "connected transactions" under section headed "Business" for details), under a tenancy agreement dated 15 March 2001 for a term of 6 years commencing on 1 January 2001 and expiring on 31 December 2006 at a monthly rent of RMB13,799.7.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purpose only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
31. East Door, 1st Floor Tianhe Building No. 232 Pang Liu Yang Road Wuchang District Wuhan City Hubei Province the PRC	<p>The property comprises two commercial units on the 1st floor of a 9-storey office building completed in about 1995.</p> <p>The gross floor area of the property is approximately 100 sq.m. (1,067 sq.ft.).</p> <p>The property is rented by the Group from a landlord, which is a connected person of the Company (please refer to paragraph headed "connected transaction" under section headed "Business" for details), under a tenancy agreement dated 8 March 2002 for a term of 3 years and 9 months commencing on 31 March 2002 and expiring on 31 December 2005. Serving meals to 20 staff of the landlord during the tenancy term is regarded as a substitute to payments of rent and other outgoings under the tenancy agreement.</p>	The property is currently used by the Group as staff canteen.	No Commercial Value
	Under the tenancy agreement, the property is permitted to be used for catering purposes only.		

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
32. Block No. 288 China Science Institute -Wuhan Branch No. 44 Middle Area Xiao Hong Shan Wuchang District Wuhan City Hubei Province the PRC	<p>The property comprises a 4-storey composite building completed in about 1985.</p> <p>The gross floor area of the property is approximately 2,000 sq.m. (21,528 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 25 December 2001 for a term of 2 years commencing on 1 January 2002 and expiring on 31 December 2003 at a monthly rent of RMB20,000.</p> <p>Under the tenancy agreement, the property is permitted to be used for production purposes only.</p>	The property is currently occupied by the Group for production purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
33. Room 301, Unit 2 Block No. 36 Shou Yi Area Wuchang District Wuhan City Hubei Province The PRC	<p>The property comprises a residential unit on the 3rd floor of a 9-storey residential building completed in about 1990.</p> <p>The gross floor area of the property is approximately 89.27 sq.m. (961 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 15 July 2002 for a term of 1 year commencing on 15 July 2002 and expiring on 14 July 2003 at a monthly rent of RMB800 exclusive of water and electricity charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for residential purposes only.</p>	The property is currently used by the Group as staff dormitory.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
34. Room 204 Block No. 32 Shou Yi Area Wuchang District Wuhan City Hubei Province the PRC	<p>The property comprises a residential unit on the 2nd floor of a 9-storey residential building completed in about 1990.</p> <p>The gross floor area of the property is approximately 74.83 sq.m. (805 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 2 July 2002 for a term of 1 year commencing on 3 July 2002 and expiring on 3 July 2003 at a monthly rent of RMB600 exclusive of management fee, water, electricity and telephone charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for residential purposes only.</p>	The property is currently used by the Group as staff dormitory.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.



## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
35. Room 404, Unit 2 Block B6 Songtao Court South Lake Wuchang District Wuhan City Hubei Province the PRC	<p>The property comprises a residential unit on the 4th floor of a 6-storey residential building completed in about 1999.</p> <p>The gross floor area of the property is approximately 110 sq.m. (1,184 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 25 December 2002 for a term of 1 year commencing on 1 January 2003 and expiring on 31 December 2003 at a monthly rent of RMB550 exclusive of water and telephone charges and management fee.</p> <p>Under the tenancy agreement, the property is permitted to be used for residential purposes only.</p>	The property is currently used by the Group as staff dormitory.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
36. A warehouse located at No. 290 Lujia Street Wutai Gate Wuchang District Wuhan City Hubei Province the PRC	<p>The property comprises a warehouse on the ground floor of a 8-storey industrial building completed in about 1993.</p> <p>The gross floor area of the property is approximately 300 sq.m. (3,229 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 11 December 2002 for a term of 2 years commencing on 25 December 2002 and expiring on 25 December 2004 at a monthly unit rent of RMB10 per sq.m. amounting to a monthly rent of 3,000 inclusive of water and electricity charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for warehouse purposes only.</p>	The property is currently occupied by the Group for warehouse purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
37. 3rd Door, Block No. 6 Maodian Society Donghu Development District Wuhan City Hubei Province The PRC	<p>The property comprises a residential unit on the 2nd floor of a 4-storey duplex residential building completed in about 2001.</p> <p>The gross floor area of the property is approximately 160 sq.m. (1,722 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 26 November 2002 for a term of 1 year commencing on 1 December 2002 and expiring on 30 November 2003 at a monthly rent of RMB900 exclusive of water and electricity charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for residential purposes only.</p>	The property is currently used by the Group as staff dormitory.	No Commercial Value

*Note:-*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
38. Room 514, 4th Door No. 17 Tonghua Road Changchun City Jilin Province the PRC	<p>The property comprises a residential unit on the 5th floor of a 7-storey residential building completed in about 1995.</p> <p>The gross floor area of the property is approximately 73.99 sq.m. (796 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 4 February 2003 for a term of 1 year commencing on 4 February 2003 and expiring on 3 February 2004 at a monthly rent of RMB1,000 inclusive of heating charges but exclusive of water, electricity, gas, telephone, television, sanitary and security charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
39. Da Yuan No. 150 Daqiao Road Jinan City Shandong Province the PRC	<p>The property comprises an office unit on the 1st floor of a 2-storey commercial building completed in about 1990.</p> <p>The gross floor area of the property is approximately 18.75 sq.m. (202 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 25 February 2003 for a term of 1 year commencing on 25 February 2003 and expiring on 24 February 2004 at a monthly rent of RMB275.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
40. Unit 401, Block A, No. 88 Guohuo West Road Taijiang District Fuzhou City Fujian Province the PRC	<p>The property comprises a residential unit on the 4th floor of a 7-storey residential building completed in about 1994.</p> <p>The gross floor area of the property is approximately 82 sq.m. (883 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 2 years commencing on 1 January 2003 and expiring on 1 January 2005 at a monthly rent of RMB1,000 exclusive of water, electricity, CCTV, gas and sanitary charges and management fee.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
41. Room 602, Unit 2 Block No. 15 Yanjiang Garden Xiaguan District Nanjing City Jiangsu Province the PRC	<p>The property comprises a residential unit on the 6th floor of a 6-storey residential building completed in about 1998.</p> <p>The gross floor area of the property is approximately 28.8 sq.m. (310 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 January 2003 for a term of 1 year commencing on 1 January 2003 and expiring on 31 December 2003 at a monthly rent of RMB1,000 exclusive of water and electricity charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Tianao Pharmaceuticals Co., Ltd. which is currently known as Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
42. Room 110 Block No. 30 Guanjing Xin Estate Suzhou City Jiangsu Province the PRC	<p>The property comprises a residential unit on the ground floor of a 17-storey residential building completed in about the 1997.</p> <p>The gross floor area of the property is approximately 76.66 sq.m. (825 sq.ft).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 20 January 2003 for a term of 1 year commencing on 20 January 2003 and expiring on 19 January 2004 at a monthly rent of RMB650 exclusive of management fee, telephone, water and electricity charges and other relevant.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.



## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
43. Room 1-1201 Block No. 3 Yuan No. 20 Si Tiao Jia Dong Tie Ying Shun Fengtai District Beijing the PRC	<p>The property comprises a residential unit on the 9th floor of a 7-storey residential building completed in about 1997.</p> <p>The gross floor area of the property is approximately 58.93 sq.m. (634 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 20 February 2003 for a term of 3 years commencing on 20 February 2003 and expiring on 20 February 2006 at a monthly rent of RMB3,000 inclusive of heating charges and management fee but exclusive of water, electricity, gas and telephone charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
44. 4th Floor Block No. 13 No. 330 Ying Ze Da Street Taiyuan City Shanxi Province the PRC	<p>The property comprises a residential unit on the 4th floor of a 4-storey residential building completed in about 2001.</p> <p>The gross floor area of the property is approximately 65.5 sq.m. (705 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 13 February 2003 for a term of 1 year commencing on 15 February 2003 and expiring on 14 February 2004 at an annual rent of RMB9,600.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
45. Room 810 Block No. 13 Changmao Garden No. 39 Nansha Road (formerly known as Nanhang Road) Haikou City Hainan Province the PRC	<p>The property comprises a residential unit on the 9th floor of a 9-storey residential building completed in about 1999.</p> <p>The gross floor area of the property is approximately 113.66 sq.m. (1,223 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 15 March 2003 for a term of 1 year commencing on 1 April 2003 and expiring on 1 April 2004 at a monthly rent of RMB1,200 exclusive of management fee and water, electricity, television charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
46. Room 606 No. 112 Lianhua Road Foshan City Guangdong Province the PRC	<p>The property comprises a residential unit on the 5th floor of a 10-storey residential building completed in about 1998.</p> <p>The gross floor area of the property is approximately 103.43 sq.m. (1,113 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 15 February 2003 for a term of 1 year commencing on 18 February 2003 and expiring on 17 February 2004 at a monthly rent of RMB1,200 exclusive of water, electricity, telephone, sanitary and security charges and other relevant outgoings.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
47. Room 302, Unit 3 Block No. 4 Xinyue Area Yinchuan City Ningxia Hui Autonomous Region the PRC	<p>The property comprises a residential unit on the 3rd floor of a 6-storey residential building completed in about 1989.</p> <p>The gross floor area of the property is approximately 90.67 sq.m. (976 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 12 March 2003 for a term of 1 year commencing on 13 March 2003 and expiring on 13 March 2004 at a monthly rent of RMB550 exclusive of water, electricity and heating charges, management fee, cable TV and sanitary charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
48. Room 102-A No. 202 58 Lane Mian Bei Road Zhang Jiang Town Pudong New District Shanghai the PRC	<p>The property comprises a residential unit on the 1st floor of a single-storey industrial building completed in about 1986.</p> <p>The gross floor area of the property is 30 sq.m. (322.96 sq.ft.).</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 1 March 2003 for a term of 3 years commencing on 18 February 2003 and expiring on 17 February 2006 at a monthly rent of RMB834 amounting to an annual rent of RMB10,000.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Jin Wei who is the representative of Vital BioTech (Shanghai) Company Limited, which is an indirect wholly owned subsidiary of the Company.

## VALUATION CERTIFICATE

No. Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 30 April 2003 HK\$
49. Room 01, 12th Floor Hui Jin Building No. 515 Hankou Road Shanghai the PRC	<p>The property comprises an office unit on the 12th floor of a 20-storey commercial building completed in about 1998.</p> <p>The gross floor area of the property is approximately 69 sq.m. (743 sq.ft.)</p> <p>The property is rented by the Group from an independent third party landlord under a tenancy agreement dated 28 February 2003 for a term of 1 year and 6 months commencing on 1 March 2003 and expiring on 31 August 2004 at a monthly rent of RMB5,000 inclusive of management fee but exclusive of electricity and telephone charges.</p> <p>Under the tenancy agreement, the property is permitted to be used for office purposes only.</p>	The property is currently occupied by the Group for office purposes.	No Commercial Value

*Note:—*

1. According to the tenancy agreement, the tenant of the property is Wuhan Weiao, which is an indirect 95%-owned subsidiary of the Company.

<b>APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
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*Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.*

*The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 May 2001 under the Companies Law. The memorandum of association (the “**Memorandum**”) and articles of association comprise its constitution.*

## **1. MEMORANDUM OF ASSOCIATION**

The memorandum of association provides that the Company’s objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed “Documents available for inspection” in Appendix V to this document. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

## **2. ARTICLES OF ASSOCIATION**

The articles of association (the “Articles”) of the Company was adopted by the Company on 26 January 2002. Recently, certain amendments have been made to the Listing Rules as a result of which listed issuers are permitted, to the extent permitted under the applicable laws and regulations and their own constitutional documents and where the listed issuers have made adequate arrangements to ascertain the wish of their shareholders, to send or make available corporate communications (including the distribution of a summary of its financial reports) to their shareholders by using electronic means and in either the English or the Chinese language.

To align the Articles with the latest changes to the Listing Rules, the Company proposes that the Articles be altered at the Extraordinary General Meeting to permit the distribution of corporate communications (including the distribution of a summary of its financial reports) to the Shareholders by using electronic means and in either the English or the Chinese language.

In addition, the quorum for meeting of the Directors is also proposed to be amended from four to two in order to facilitate smooth operations of the Company.

The following is a summary of certain provisions of the Articles assuming the proposed alterations have been approved at the Extraordinary General Meeting:

### **(a) Directors**

#### *(i) Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given



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date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of Cayman Islands to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director or past Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (aa) to be applied for, or in respect of a liability incurred, for any business of the Company, (bb) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts, provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence or (cc) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of the Company or its holding company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

*(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Directors after he knows that he is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors in respect of any contract or arrangement in which he is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director of any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company;

- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company which the Director has himself guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director is interested by virtue only of his interest in shares or debentures or other securities of the Company and/or his being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he is interested directly or indirectly whether as an officer and/or a member, other than a company in which the Director together with any of his associates owns five per cent, or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates both to Directors and employees of the Company or any of its subsidiaries and does not give the Director any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director may benefit; and

- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, officer or employee pursuant to the Articles.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

*(viii) Retirement, appointment and removal*

At each annual general meeting one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest but not exceeding one third) will retire from office save for any chairman, deputy chairman, managing director and joint managing director. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be less than one. A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). The Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

*(ix) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof.

The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles or to change the name of the Company.

**(c) Alterations of capital**

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are subdivided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital;
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (viii) reduce its share premium account in any manner authorised, and subject to any conditions prescribed by law.

The Company may by special resolution reduce its issued share capital or undistributable reserve in any manner authorised and subject to any conditions prescribed by law.

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions – majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

**(f)    Voting rights and right to demand a poll**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee) in respect of the number and class of shares specified in the relevant authorisation.

**(g)    Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.



**(h)    Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal place of business of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Accounting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company send to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the director' report thereon. If all or any of the shares of debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**(i) Notices of meetings and business to be conducted thereat**

For so long as any part of the issued capital of the Company remain listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or in any other form acceptable to the Board and may be under hand only or if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share

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certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong or by any electronic means in such manner as may be accepted by the Stock Exchange, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for the Company to purchase its own shares**

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

**(l) Power of any subsidiary to own securities in the Company**

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

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The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared or remitted may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared or remitted may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be reallocated or re-issued for such consideration as the Directors think fit.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote on a poll instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same power on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable

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either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of nonpayment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and is subject to the Companies Ordinance.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company as the matter is dealt with in the Companies Law (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u) Procedures on liquidation**

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company

has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” therein shall include “stock” and “stockholder” and “member”.

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants,

**3.      VARIATION OF MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION**

Subject to the rights of the Company set out in paragraph (c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by special resolution of the Company. The Articles may also be amended by special resolution of the Company. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

**4.      CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a)      Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine, including but without limitation:

- (i)      in paying distributions or dividends to members;
- (ii)     in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii)    in redeeming or purchasing its shares as provided in the Companies Law;
- (iv)    in writing off:
  - (aa)    the preliminary expenses of the company; or
  - (bb)    the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or



- (v) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances, be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of association, issue redeemable shares and purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fail due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of a company to challenge (aa) an act which is ultra vires the company or illegal, (bb) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, and (cc) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

**(f) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(g) Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the period of twenty years from the date of the grant of the undertaking will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(l) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

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A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

## **5. GENERAL**

Conyers Dill & Pearman, Cayman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 30 May 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On 30 May 2001, one share of HK\$0.10 in the Company was allotted and issued to Trident Nominees (Cayman) Limited for cash at par. On 31 May 2001, Trident Nominees (Cayman) Limited transferred the one share of HK\$0.10 in the Company to Mr. Ko. On the same day, two shares of HK\$0.10 each in the Company were allotted and issued by the Company as to one share to Mr. Au Yeung and one share to Mr. Liu for cash at par.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands company law is set out in Appendix III to this document.

**2. Changes in share capital of the Company**

- (a) On 17 December 2001, the Company allotted and issued an aggregate of 909,087 shares of HK\$0.10 each, nil paid, as to 303,080 shares to Mr. Ko, 53,953 shares to Mr. Au Yeung, 106,599 shares to Mr. Liu, 381,818 shares to Mr. Tao, 36,364 shares to Goldfield and 27,273 shares to Pernanga.
- (b) On 23 January 2002, each of Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga transferred to the Company, in aggregate, 103 shares of US\$1 each, being the entire issued share capital in Yugofoil, in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 909,090 shares of HK\$0.10 each, as to 303,081 shares to Mr. Ko, 53,954 shares to Mr. Au Yeung, 106,600 shares to Mr. Liu, 381,818 shares to Mr. Tao, 36,364 shares to Goldfield and 27,273 shares to Pernanga; and (ii) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each held by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga.
- (c) On 23 January 2002, an aggregate of 201,836 shares of HK\$0.10 each in the Company were transferred from Mr. Ko as to 131,942 shares, Mr. Au Yeung as to 23,487 shares, Mr. Liu as to 46,407 shares to the following persons at the consideration of AUD2.3534 (approximately HK\$9.4136) per share:

Name	Number of Shares
David Kwok Ching Chu	57,655
Diamond Clear Associates Limited	28,836
Active Device Co., Ltd	28,836
Ho Louis Kok Hay and Ho Yue Lai Fong	28,836
Chu Chan Sai Wah, Grace	14,418
Chu Wing Cheong	14,418
Canterbury 2000 Limited	8,652
Lam Yiu Cheung	5,764
Kenneth Walter Glynn	5,764
Margaret Carmel D'Arcy-Evans	2,891
Elizabeth Wong Tuen Yee	2,883
Angela Cutri	2,883

- (d) On 23 January 2002, the Company allotted and issued, at the joint direction of Mr. Ko, Mr. Au Yeung and Mr. Liu, one share of HK\$0.10 to Mr. Ko for the settlement of a loan of AUD475,000 (approximately HK\$1,900,000) due from the Company to Mr. Ko, Mr. Au Yeung and Mr. Liu.
- (e) On 26 January 2002, an aggregate of 1,159,092 shares of HK\$0.10 each in the Company were transferred from Mr. Ko as to 382,500 shares, Mr. Au Yeung as to 69,545 shares, Mr. Liu as to 139,091 shares and Mr. Tao as to 567,956 shares to Perfect Develop in consideration of and exchange for which Perfect Develop allotted and issued, credited as fully paid, an aggregate of 100 new shares of US\$1 each in the capital of Perfect Develop, as to 33 shares to Mr. Ko, 6 shares to Mr. Au Yeung, 12 shares to Mr. Liu and 49 shares to Mr. Tao.
- (f) On 26 January 2002, the then issued and unissued shares having a par value of HK\$0.10 each in the capital of the Company were sub-divided into ten Shares. On the same day, the authorised share capital of the Company was increased from HK\$390,000 to HK\$500,000,000 by the creation of a further 49,961,000,000 Shares.
- (g) On 6 February 2002, the Company allotted and issued a total of 240,000,000 Shares at HK\$0.45 per Share through an initial public offering by way of Placing, and a total of 941,818,180 Shares, credited as fully paid, to holders of Shares whose names appeared on the register of members of the Company on 26 January 2002, by way of capitalising a sum of HK\$9,418,182 standing to the credit of the share premium account of the Company.
- (h) On 18 September 2002, the Company allotted and issued a total of 27,347,268 scrip Shares to Shareholders whose names appeared on the register of members on 28 August 2002.
- (i) On 16 May 2003, the Company allotted and issued a total of 50,114,901 scrip Shares to Shareholders whose names appeared on the register of members on 7 April 2003.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$500,000,000 divided into 50,000,000,000 Shares and the issued share capital of the Company was HK\$12,774,621.69 divided into 1,277,462,169 Shares fully paid or credited as fully paid, with 48,722,537,831 Shares remaining unissued. Other than pursuant to any options which were granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme if the same is approved by the Shareholders at the Extraordinary General Meeting or pursuant to the exercise of power under the general mandates of the Directors to issue securities and/or repurchase Shares, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in the general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since the date of its incorporation.

**3. Changes in share capital of the Company's subsidiaries**

- (a) The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this document and in this Appendix.
- (b) Within the two years preceding the date of this document, the following changes in the share capital of the subsidiaries of the Company have taken place:

*Ever Power*

- (i) On 17 December 2001, each of Mr. Ko and Mr. Au Yeung transferred one share of US\$1 each in Ever Power to the Company in consideration of and exchange for which the Company allotted and issued, credited as fully paid, one Share at the joint direction of Mr. Ko and Mr. Au Yeung, to Mr. Au Yeung.

*Gainful Plan*

- (ii) On 17 December 2001, each of Mr. Ko and Mr. Au Yeung transferred one share of US\$1 each in Gainful Plan to the Company in consideration of and exchange for which the Company allotted and issued, credited as fully paid, one Share at the joint direction of Mr. Ko and Mr. Au Yeung, to Mr. Au Yeung.

*Sichuan Research*

- (iii) On 25 July 2001, Sichuan Research was established in the PRC with a registered capital of US\$1,400,000.

*Maxsun*

- (iv) On 15 September 2001, Pharmco transferred an aggregate of 49 shares of HK\$1 each in Maxsun as to 24 shares to Ms. Betty Wei Bai and as to 25 shares to Mr. Tse-Rou Kuo, respectively, at the consideration of HK\$1 each.

*Farthinghoe*

- (v) On 23 January 2002, each of Mr. Ko, Mr. Au Yeung and Mr. Liu transferred one share of US\$1 each in Farthinghoe to Yugofoil in consideration of and exchange for which Yugofoil allotted and issued, credited as fully paid, one share of US\$1 each to each of Mr. Ko, Mr. Au Yeung and Mr. Liu respectively.

*Sichuan Pharmaceutical*

- (vi) On 22 May 2002, the registered capital of Sichuan Pharmaceutical was increased from RMB9,000,000 to RMB25,000,000, of which 85% is owned by Yugofoil and 15% is owned by Sichuan Kangao Pharmaceutical Technology Development Co., Ltd (四川康奧醫藥科技開發有限責任公司).

*Wuhan Weiao*

- (vii) On 5 July 2002, the registered capital of Wuhan Weiao was increased from RMB7,140,000 to RMB18,000,000, of which 95% is owned by Yugofoil and 5% is owned by Wuhan Tianao Pharmaceutical Factory (武漢市天奧製藥廠).

*Wide Triumph*

- (viii) On 1 February 2002, Wide Triumph was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each.
- (ix) On 1 February 2002, two subscribers' shares of HK\$1 each in Wide Triumph were acquired by Yugofoil and its nominee for cash at par.
- (x) On 26 March 2002, 98 shares of HK\$1 each in Wide Triumph were allotted and issued to Yugofoil at par.

*Sino Lion*

- (xi) On 23 July 2002, Sino Lion was incorporated in BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (xii) On 23 July 2002, one share of US\$1 each in Sino Lion was allotted and issued to the Company at par.

*Beshabar (Macao)*

- (xiii) On 18 March 2002, Beshabar (Macao) was incorporated in Macao with capital of MOP100,000 held by Beshabar (HK).
- (xiv) On 19 December 2002, Beshabar (HK) transferred the quote of 100,000 patacas that it possessed in Beshabar (Macao) to Sino Lion.

*Darsawye*

- (xv) On 7 June 2002, Darsawye was incorporated in Victoria, Australia with an authorised share capital of AUD12 divided into 12 shares of AUD1 each.
- (xvi) On 7 June 2002, 12 ordinary shares of AUD1 each in Darsawye were allotted and issued to Tracie Anne Wright.
- (xvii) On 7 June 2002, Vital BioTech (Hong Kong) acquired 12 ordinary shares of Darsawye from Tracie Anne Wright at a consideration of AUD12.

*Sino Metro*

- (xviii) On 23 January 2003, Sino Metro was incorporated in BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each.



- (xix) On 23 January 2003, one share of US\$1 each in Sino Metro was allotted and issued to the Company at par.

*Vital BioTech (Shanghai)*

- (xx) On 3 April 2003, Vital BioTech (Shanghai) was established in the PRC with a registered capital of HK\$2,000,000.

Save as disclosed herein, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this document.

#### **4. Securities repurchase mandate**

This paragraph 4 sets out information required by the Stock Exchange to be included in this document concerning the repurchase by the Company of its own securities.

*(a) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorised by its articles of association and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by its articles of association and subject to the Companies Law, out of capital.

*(b) Reasons for repurchases*

The Directors believe that it is in the best interest of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and the Shareholders.

*(c) Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules (prior to the listing of the Shares on the Main Board) or the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this document and taking into account the current working capital position of the Group, the Directors consider that, if the repurchase mandate (the "Repurchase Mandate") given to the Directors pursuant to the resolution proposed to be passed by the Shareholders at the Extraordinary

General Meeting were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

On the basis of 1,277,462,169 Shares in issue as at the Latest Practicable Date and on the assumption that no further Shares will be issued or repurchased prior to the Extraordinary General Meeting (being the expected date of the approval of the Repurchase Mandate), the exercise in full of the Repurchase Mandate would result in up to 127,746,216 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

*(d) General*

The Company has not repurchased any of its Shares since its incorporation. None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules (prior to the listing of the Shares on the Main Board) or the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

The table below shows the highest and lowest traded prices for the Shares on GEM in the previous twelve months preceding the Latest Practicable Date:

	Price per Share	
	Highest HK\$	Lowest HK\$
<b>2002</b>		
July	0.435	0.295
August	0.365	0.300
September	0.340	0.240
October	0.300	0.220
November	0.280	0.213
December	0.280	0.225
<b>2003</b>		
January	0.275	0.228
February	0.242	0.181
March	0.280	0.230
April	0.315	0.246
May	0.390	0.310
June*	0.415	0.315

\* up to the Latest Practicable Date

## FURTHER INFORMATION ABOUT THE BUSINESS

### 5. Summary of material contracts

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




- (a) a share purchase agreement dated 23 January 2002 entered into among (i) each of Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga as vendors; (ii) Mr. Ip Yu Chak and Mr. Yeung Wing Sang as warrantors; and (iii) the Company as purchaser for the acquisition of the entire issued share capital of Yugofoil, in consideration of and exchange for which the Company (aa) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each, as to 303,081 shares Mr. Ko, 53,954 shares to Mr. Au Yeung, 106,600 shares to Mr. Liu, 381,818 shares to Mr. Tao, 36,364 Shares to Goldfield and 27,273 Shares to Pernanga; and (bb) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each held by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga;
- (b) a deed of indemnity dated 30 January 2002 executed by Perfect Develop, Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao in favour of the Company containing the indemnities more particularly referred to in paragraph 11 of this Appendix;
- (c) the underwriting agreement dated 30 January 2002 entered into between the Company, Goldfield, Pernanga, the initial management shareholders named therein, the executive Directors, CPY and the underwriters named therein in relation to the placing of 300,000,000 Shares (subject to the over-allotment option);

- (d) a deed of assignment dated 1 November 2001 entered into between Ever Power, as assignee, and Mr. Ko, as assignor, for the assignment of all right, title and interest in the US Patent Application No. 09/717.088, entitled “Novel compositions and methods”;
- (e) an assignment dated 20 March 2002 entered into between Gainful Plan, as assignee, and Mr. Ko and Mr. Au Yeung, as assignors, for the assignment of all right, title and interest in the US Patent Application No. 10/054,914, entitled “Method of preparing biological materials and preparations produced using same”;
- (f) an assignment dated 22 April 2002 entered into between Gainful Plan, as assignee, and Mr. Ko and Mr. Au Yeung, as assignors, for the assignment of all right, title and interest in the R.O.C. Patent Application No. 91101331, entitled 用於製備生物材料的方法以及使用該方法所製造之製劑 (“Method of preparing biological materials and preparations produced using same”); and
- (g) an assignment dated 18 June 2003 entered into between Ever Power, as assignee, and Mr. Ko, as assignor, for the assignment of all right, title and interest in the R.O.C. Patent Application No. 89124805, entitled 新穎組合物及方法 (“Novel compositions and methods”).

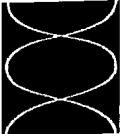
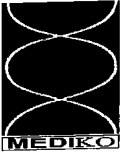
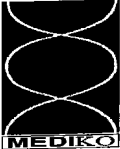
## 6. Intellectual property rights of the Group

### Trade marks

The Group is the registered proprietor and beneficial owner of the following trade marks:

Trade Marks	Class	Registration number	Term of validity	Place of registration
	5 (Note 1)	1092945	10 years from 7 September 1997 to 6 September 2007	PRC
	5 (Note 2)	1218332	10 years from 28 October 1998 to 27 October 2008	PRC
VITAPHARM MEDIKO	3 (Note 3)	768659	10 years from 28 July 1998 to 27 July 2008	Australia
VITAPHARM MEDIKO	5 (Note 4)	768659	10 years from 28 July 1998 to 27 July 2008	Australia
	5 (Note 5)	1198341	10 years from 14 August 1998 to 13 August 2008	PRC

Trade Marks	Class	Registration number	Term of validity	Place of registration
	10 ( <i>Note 6</i> )	B15226/2002	7 years from 29 September 2001 to 29 September 2008	Hong Kong
维 奥	5 ( <i>Note 7</i> )	1604553	10 years from 21 July 2001 to 20 July 2011	PRC
	5 ( <i>Note 8</i> )	924679	10 years from 7 January 1997 to 6 January 2007	PRC
康 洲	5 ( <i>Note 9</i> )	1111750	10 years from 28 September 1997 to 27 September 2007	PRC
康 发	5 ( <i>Note 9</i> )	1120124	10 years from 21 October 1997 to 20 October 2007	PRC
<b>Minvita</b>	5 ( <i>Note 10</i> )	1612564	10 years from 7 August 2001 to 6 August 2011	PRC
<b>Minvian</b>	5 ( <i>Note 10</i> )	1612565	10 years from 7 August 2001 to 6 August 2011	PRC
<b>矿维安</b> <b>Minvian</b>	30 ( <i>Note 11</i> )	1610949	10 years from 28 July 2001 and 27 July 2011	PRC
<b>矿维他</b> <b>Minvita</b>	30 ( <i>Note 11</i> )	1610948	10 years from 28 July 2001 and 27 July 2011	PRC
泰 嗒	5 ( <i>Note 12</i> )	1728535	10 years from 14 March 2002 to 13 March 2012	PRC
美迪高	5 ( <i>Note 13</i> )	1712529	10 years from 14 February 2002 to 13 February 2012	PRC

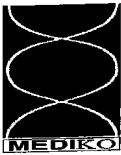

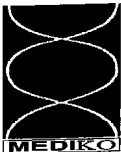
Trade Marks	Class	Registration number	Term of validity	Place of registration
VITAPHARMMEDIKO	5 (Note 13)	1712532	10 years from 14 February 2002 to 13 February 2012	PRC
	5 (Note 13)	1907409	10 years from 21 November 2002 to 20 November 2012	PRC
“乐力”	30 (Note 14)	1281432	10 years from 7 June 1999 to 6 June 2009	PRC
	42 (Note 15)	B03914/2003	7 years from 29 September 2001 to 29 September 2008	Hong Kong
	5 (Note 16)	B07804/2003	7 years from 29 September 2001 to 29 September 2008	Hong Kong



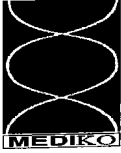
## Notes:

1. The products covered under this class include Western medicine.
2. The products covered under this class include injection and suppository.
3. The products covered under this class include cosmetic preparations including anti-wrinkle preparations, anti-ageing preparations, skin lightening compositions and emollient creams.
4. The products covered under this class include pharmaceutical and cosmetic preparations including anti-acne preparations, compositions for preventing hair loss, depilatory compositions, anti-psoriasis creams, topical anti-microbial and anti-viral preparations including topical cold sore treatment compositions, blackhead and/or whitehead removing preparations.
5. The products covered under this class include capsules.
6. The products covered under this class include surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials; all included in Class 10.
7. The products covered under this class include pharmaceutical preparations, tablets, suppository, medical syrup.
8. The products covered under this class include pharmaceuticals products, medical nutritional drink and Chinese medicine.
9. The products covered under this class include capsules, tablets and oral liquid.
10. The products covered under this class include medical nutritional products, medical nutritional food, medical nutritional food preparations, baby food, medical nutritional drink, medical nutritional additives, mineral food additives, capsules, oral liquid and tablets.

11. The products covered under this class include non-medical nutritional liquid, non-medical nutritional paste, non-medical nutritional powder, non-medical nutritional capsules.
12. The products covered under this class include medicine for human use, medical chemicals preparations, medical dragnostics, injections, tablets, pharmaceutical raw materials, processed traditional Chinese medicine, biochemical pharmaceuticals, pharmaceutical enzyme preparations, tablets.
13. The products covered under this class include medicine for human, medical biological preparations, medical nutritional products, disinfectants, pharmaceutical preparations, biochemical pharmaceuticals, veterinary drugs, medical hair grower, medical nutritional food, medical diagnostics.
14. The products covered under this class include coffee, tea, candies, non-medical nutritional liquid, non-medical nutritional powder, non-medical nutritional tablets, biscuits, oatmeal, instant noodle, popcorn.
15. The services covered under this class include scientific and industrial research; all included in Class 42.
16. The products covered under this class include pharmaceutical veterinary and sanitary preparation; dietetic substances adapted for medical use; all included in class 5.

As at the Latest Practicable Date, the Group had applied for registration of the following trade marks, the registration of which has not yet been granted:

Trade Marks	Place of application	Class	Application date	Application number
矿维安	PRC	5 (Note 1)	7 June 2002	3203169
矿维他	PRC	5 (Note 1)	7 June 2002	3203170
矿维	PRC	5 (Note 1)	7 June 2002	3203171
	Hong Kong	3 (Note 2)	11 December 2002	19227/2002
维奥	Hong Kong	3 (Note 2)	20 June 2003	300035919
	PRC	30 (Note 3)	18 October 2002	3339686
	PRC	16 (Note 4)	29 January 2002	3082645

Trade Marks	Place of application	Class	Application date	Application number
	PRC	18 (Note 5)	29 January 2002	3082647
	PRC	44 (Note 6)	29 January 2002	3082644
维奥	PRC	5 (Note 7)	7 August 2002	3267049
	PRC	5 (Note 8)	18 October 2002	3339687
	PRC	5 (Note 9)	30 May 2002	3193566
	PRC	5 (Note 9)	30 May 2002	3193565
维奥	PRC	5 (Note 10)	29 October 2002	3351227
	PRC	5 (Note 11)	29 January 2002	3082648
	PRC	42 (Note 12)	29 January 2002	3082646
维奥	Hong Kong	5 (Note 13)	20 June 2003	300035919
维奥	Hong Kong	10 (Note 14)	20 June 2003	300035919
维奥	Hong Kong	42 (Note 15)	20 June 2003	300035919



*Notes:*

1. The products covered under this class include capsules, tablets, oral preparations, medical nutritional products, medical nutritional food, medical nutritional food preparations, baby food, medical nutritional drink, medical nutritional additives, mineral food additives; all included in class 5.
2. The products covered under this class include perfumes, cosmetics oils for cosmetic purposes; make-up preparations; make-up removing preparations; cosmetic preparations for skin care, for cellulite reduction, for bath; cosmetic creams; eyebrow cosmetics; eye shadow; eye liner; beauty masks, pencils for cosmetics purposes, blushes; nail polish; lipsticks; hair lotions and non-medicated preparation for hair care; whitening preparations for skin; shampoos; soaps; cleansing milk for toilet purposes; deodorants for personal use; essential oils for personal use; all included in class 3.
3. The products covered under this class include non-medical nutritional liquid, non-medical nutritional paste, non-medical nutritional powder, non-medical nutritional capsules, oatmeal, food grade glucose, malted milk, non-medical royal jelly, spirulina (non-medical nutrient), bean powder; all included in class 30.
4. The products covered under this class include booklets, notes book or sketch book, envelope (stationery), bookmark, calendar, poster, printed publications, paper bags or plastic bags for packaging (envelopes, little bags), office utilities (except furniture), stationery; all included in class 16.
5. The products covered under this class include shopping bag, leather bag for packaging (envelope, little bag), name card holder (wallet), backpack, travel bag or case, key bag (made of leather), briefcase, handbag, schoolbag, umbrella; all included in class 18.
6. The products covered under this class include beauty salons, sanitarium, hospital, healthcare, medical assistance, rehabilitation, veterinary assistance, dentistry, animal keeping, medical consultation; all included in class 44.
7. The products covered under this class include disinfecting solution for contact lens, cleaning solution for contact lens, candies for medical use, medical nutritional products, medical nutritional food, medical nutritional preparations, baby food, almond milk for medical use, adhesive bandages for medical use, collodion cotton for medical use, tampon; all included in class 5.
8. The products covered under this class include medicine for human use, medical nutritional food preparation, baby food, veterinary drug, candies for medical use, medical nutritional products, cotton for medical use, adhesive bandages for medical use, tampon, solution for contact lens; all included in class 5.
9. The products covered under this class include medicine for human use, processed traditional Chinese medicine, biological pharmaceuticals, medical biological preparation, chemical medicine preparation, medical nutritional products, purificant, veterinary drug, parasiticide, bags for chinese medicine; all included in class 5.
10. The products covered under this class include medicine for human use, medical chemical preparation, chemical medicine preparation, tablets, pharmaceutical raw materials, processed traditional Chinese medicine, capsuled medicine, medical nutritional food preparations, pharmaceutical capsules, candies for medical use; all included in class 5.
11. The products covered under this class include medicine for human use, syrupe medical use, medicine preparation, vitamin preparation, medical nutritional products, purificant, veterinary drug, preparations for destroying vermins, sterilized paper towel, tooth fillings; all included in class 5.
12. The products covered under this class include chemical analysis, technology research, research on cosmetics, interior design and decoration, apparent design on industrial products, packaging design, testing on raw materials, permit on intellectual property, research and development, biological research; all included in class 42.

13. The products covered under this class include pharmaceutical, veterinary and sanitary preparation; dietetic substances adapted for medical use; all included in class 5.
14. The products covered under this class include surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials; all included in class 10.
15. The services covered under this class include scientific and industrial research; all included in class 42.

### Patents

The Group is the registered proprietor and beneficial owner of the following patents:

Title of Inventions	Place of registration	Approving date	Registration number	Patent Classifications	Note
Hard porous loose-foam body bolt and its manufacturing process	PRC	22 January 2000	941012557	A61K 9/02	-
Frozen dry bolt and its manufacturing process	PRC	5 February 2000	941076695	A61K 9/02	-

As at the Latest Practicable Date, the Group had applied for registration of the following patents, the registration of which has not yet been granted:

Title of Inventions	Place of application	Application filing date	Application number	Patent Classifications	Note
促紅細胞生成素口含片及其制備方法 EPO Sublingual tablet and its production method	PRC	18 July 2002	02125238.6	-	-
痔血宁膠囊及其制備方法 Depile capsule and its production method (Note 1)	PRC	24 January 2002	02113266.6	-	Publication on 11 September 2002
乳清酸亞鐵及其制備方法和用途 Ferrous Orotate, its production method and usage	PRC	18 December 2002	02156765.4	-	-
非諾貝特咀嚼片及其制備方法 Fenofibrate chewable tablet and its production method	PRC	20 December 2002	02128055.X	-	-

Title of Inventions	Place of application	Application filing date	Application number	Patent Classifications	Note
<i>Derivative patents from PSD technology</i>					
Method of preparing biological materials and preparations produced using same	Australia	25 January 2001	PR2729	Note 2	Proceeded as PCT/AU02/00076
Method of preparing biological materials and preparations produced using same	World Intellectual Property Organization	24 January 2002	PCT/AU02/00076 (WO02/058735 A1)	A61K 47/36, 47/40, 47/38, 47/42, 39/02, 38/43, 38/46, 38/47, 38/21, 38/22, 9/14, A23K 1/165, A61P 1/12	– PCT patent – Publication on 1 August 2002
用於製備生物材料的方法以及使用該方法所製造之製劑 Method of preparing biological materials and preparations produced using same	Taiwan	25 January 2002	91101331	Note 3	–
Method of preparing biological materials and preparations produced using same	US	25 January 2002	10/054,914	Note 4	Publication on 16 January 2003
<i>Derivative patents from SDDS technology</i>					
A propellant free spray-on skin patch composition for improving wound healing and for drug administration	Australia	23 November 1999	PQ4190	Note 2	Proceeded as PCT/AU00/01419
Novel compositions and methods	US	22 November 2000 (Note 5)	09/717.088	Note 4	Proceeded as a PCT application
A propellant free spray-on skin patch composition for improving wound healing and for drug administration	Australia	22 November 2000 (Note 5)	15043/01	Note 2	Proceeded as a PCT application
A propellant free spray-on skin patch composition for improving wound healing and for drug administration	World Intellectual Property Organization	22 November 2000	PCT/AU00/01419 (WO 01/37890 A1)	A61L 26/00, 27/60, A61K 9/12, 9/70, A61P 17/02, 31/02, 31/04, 31/10	– PCT patent – Publication on 31 May 2001
A propellant free spray-on skin patch composition for improving wound healing and for drug administration	European Patent Office	22 November 2000 (Note 5)	00977307.8	A61L 26/00, 27/60, A61K 9/12, 9/70, A61P 17/02, 31/02, 31/04, 31/10	Proceeded as a PCT application
新穎組合物及方法 Novel compositions and methods	Taiwan	23 November 2000	89124805	Note 3	–
Novel compositions and methods	Japan	22 November 2000 (Note 5)	2001-539503	A61L 26/00, 27/60, A61K 9/12, 9/70, A61P 17/02, 31/02, 31/04, 31/10	Proceeded as a PCT application
一種用於促進傷口愈合和給藥的無推進劑噴霧狀皮膚貼劑組合物 A propellant free spray-on skin patch composition for improving wound healing and for drug administration	PRC	22 November 2000 (Note 5)	00816113.5	A61L 26/00, 27/60, A61K 9/12, 9/70, A61P 17/02, 31/02, 31/04, 31/10	Proceeded as a PCT application
Improvements in or relating to vaccines	Australia	23 September 2002	2002951692		–

*Notes:*

1. The Company filed the application for patent together with 成都中醫藥大學附屬醫院 Chengdu Chinese Medical University Affiliated Hospital.
2. Australian provisional patent applications are not accorded patent classifications.
3. No patent classification information is available for the Taiwanese application.
4. US patent classification: Class 424.
5. Pursuant to Article 11(3) of the Patent Cooperation Treaty (“PCT”), the filing date of PCT application is considered to be the actual filing date in each designated country.

*Domain names*

The Group is the registered proprietor and beneficial owner of the domain names specified below:

<b>Domain names</b>	<b>Date of registration</b>
vitapharm.com.au	23 February 1999
etianao.com	16 November 2000
osteoform.com	15 December 1999
vitalbiotech.com	10 November 2000
mediko.com.cn	13 September 2002
opin.com.cn	13 September 2002
vitalbiotech.com.cn	13 September 2002
維奧	5 December 2002
樂力	4 December 2002
vitalbiotech.com.hk	18 February 2003

#### **7. Further information about the Group’s PRC equity joint ventures and wholly foreign owned enterprise**

The Group has established two sino-foreign equity joint ventures in the PRC. Summaries of corporate information and the principal terms of the joint venture contract in respect of each of the joint venture enterprises are as follows:

(a) *Sichuan Pharmaceutical*

Corporate nature	:	Sino-foreign equity joint venture enterprise
Joint venture partners	:	(i) 四川康奧醫藥科技開發有限責任公司 (Sichuan Kangao Pharmaceutical Technology Development Co., Ltd.) (the PRC joint venture partner); and
		(ii) Yugofoil
Total investment	:	RMB50,000,000
Total registered capital	:	RMB25,000,000

Attributable interest of the Company	:	85%
Term of joint venture	:	30 years
Scope of business	:	Production, sales and marketing of Western and Chinese pharmaceutical preparations and raw materials

The board of directors of Sichuan Pharmaceutical consists of five directors, two of whom are appointed by the PRC joint venture partner and the remaining three are appointed by Yugofoil.

The profit of Sichuan Pharmaceutical is shared between the Group and the PRC joint venture partner in proportion to their respective equity interests in Sichuan Pharmaceutical. Upon the termination of the joint venture contract, the assets of Sichuan Pharmaceutical will be distributed to the Group and the PRC joint venture partner in proportion to their respective equity interests in Sichuan Pharmaceutical.

(b) *Wuhan Weiao*

Corporate nature	:	Sino-foreign equity joint venture enterprise
Joint venture partners	:	(i) 武漢天奧製藥廠 (Wuhan Tianao Pharmaceutical Factory) (the PRC joint venture partner); and (ii) Yugofoil
Total investment	:	RMB36,000,000
Total registered capital	:	RMB18,000,000
Attributable interest of the Company	:	95%
Term of joint venture	:	15 years
Scope of business	:	Research, development, production, sales and marketing of broad spectrum anti-viral and biological line of pharmaceutical products

The board of directors of Wuhan Weiao consists of seven directors, two of whom are appointed by the PRC joint venture partner and the remaining five are appointed by Yugofoil.

The profit of Wuhan Weiao is shared between the Group and the PRC joint venture partner in proportion to their respective equity interests in Wuhan Weiao. Upon the termination of the joint venture contract, the assets of Wuhan Weiao will be distributed to the Group and the PRC joint venture partner in proportion to their respective equity interests in Wuhan Weiao.

The Group has also established two wholly foreign owned enterprises, namely, Sichuan Research and Vital BioTech (Shanghai) in the PRC. Summary of corporate information in respect of each of the wholly foreign owned enterprises are as follows:

(c) *Sichuan Research*

Corporate nature	:	Wholly foreign owned enterprise
Total investment	:	US\$2,000,000
Total registered capital	:	US\$1,400,000
Term of operation	:	15 years
Scope of business	:	Research and development of biotechnology

(d) *Vital BioTech (Shanghai)*

Corporate nature	:	Wholly foreign owned enterprise
Total investment	:	HK\$2,000,000
Total register capital	:	HK\$2,000,000
Term of operation	:	30 years
Scope of business	:	Provision of consultancy services in relation to biotechnology and bio-engineering (in respect of those business regulated by the laws and regulations, they shall be operated with relevant licences)

## FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

### 8. Disclosure of interests

(a) *Disclosure of interests of the Directors*

The Group entered into a tenancy agreement dated 8 September 2001 with Mr. Tao, one of the executive Directors. Pursuant to the tenancy agreement, the Group agreed to lease office premises in Shenzhen, the PRC from Mr. Tao for a term of one year commencing from 8 September 2001. The tenancy was terminated on 7 September 2002.

Save as disclosed herein, none of the Directors or their respective associates was engaged in any dealings with the Group during the two years preceding the date of this document.

*(b) Particulars of service contracts*

Each of Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao, being all the executive Directors, has entered into a service contract with the Company for an initial term of two years commencing from 1 December 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic annual salary set out below (subject to an annual increment at the discretion of the Directors). In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 10% of the audited combined profit attributable to the Shareholders (after taxation and minority interests but before extraordinary and exceptional items and the payments of such bonuses) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the discretionary management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

<b>Name</b>	<b>Amount</b>
Mr. Ko	HK\$720,000
Mr. Au Yeung	HK\$720,000
Mr. Liu	HK\$720,000
Mr. Tao	HK\$720,000

The independent non-executive Directors, Mr. Lui Tin Nang and Mr. Lee Kwong Yiu have been appointed for a term of two years expiring on 1 July 2004 and 25 January 2004 respectively. Save for a director fee of HK\$120,000 per annum for each of them, the independent non-executive Directors are not entitled to any other remuneration.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

*(c) Directors' remuneration*

- (i) The Company's policies concerning remuneration of executive Directors are as follows:
  - (aa) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to the Group by the relevant Director;
  - (bb) non-cash benefits may be provided to the Directors under their remuneration package; and
  - (cc) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of the remuneration package.

- (ii) During the year ended 31 December 2002, the aggregate emoluments paid by the Group to the Directors was approximately HK\$3,671,000. Details of the Directors' remuneration are set out in note 10 to section V of the accountants' report set out in Appendix I to this document.
- (iii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31 December 2003 are estimated to be approximately HK\$7,614,000.
- (iv) No bonus was paid to any of the Directors in each of the three financial years ended 31 December 2002.
- (v) No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors have waived any emoluments.
- (d) *Interests and short positions of Directors in the share capital of the Company and its associated corporations*

The interests and short positions of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SFO) which will have 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 taken or deemed to have under such provisions of the SFO), or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, (assuming that their interests remain unchanged after the Latest Practicable Date up to the commencement of listing of the Shares on the Main Board), in each case once the Shares are listed on the Main Board, will be as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities (Note 1)	Percentage shareholding in the same class of securities
Mr. Ko	Company	Beneficial owner	51,362,600 (L)	4.02%
Mr. Au Yeung	Company	Beneficial owner	8,507,200 (L)	0.67%
Mr. Liu	Company	Beneficial owner	15,849,600 (L)	1.24%
Mr. Tao	Company	Beneficial owner	108,480,960 (L)	8.49%
	Company	Interest of a controlled corporation (Note 2)	641,525,370 (L)	50.22%
	Perfect Develop	Beneficial owner	49 ordinary shares of US\$1 each (L)	49%

*Notes:*

- The letter "L" stands for the Director's long position in such securities.
- The interest in the Shares are held by Perfect Develop. The entire issued share capital of Perfect Develop is beneficially owned as to 33% by Mr. Ko, 6% by Mr. Au Yeung, 12% by Mr. Liu and 49% by Mr. Tao. Accordingly, Mr. Tao is deemed to be interested in all the Shares which Perfect Develop is interested by virtue of the SFO.



*(e) Agency fees or commissions received*

None of the Directors had received any agency fee or commission from the Group within the two years immediately preceding the date of this document. Save for usual professional fees in connection with the Introduction and the placing of Shares pursuant to the Prospectus (where applicable), none of the experts named in the paragraphs headed “Consents of experts” in this Appendix had received any agency fees and commission from the Group in the two years immediately preceding the date of this document.

*(f) Interest discloseable under the SFO and substantial Shareholders*

So far as is known to the Directors, before and immediately following the Introduction, the following persons/entities will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be 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 meetings of any other members of the Group:

Name	Company/ name of group member	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Perfect Develop (Note 2)	Company	Beneficial owner	641,525,370 (L)	50.22%
Mr. Tao (Note 3)	Company	Beneficial owner	108,480,960 (L)	8.49%
		Interest of a controlled corporation	641,525,370 (L)	50.22%
Ms. Li Chun Yi (Note 4)	Company	Interest of spouse	750,006,330 (L)	58.71%

*Notes:*

- The letter “L” denotes for the person’s/entity’s long position in the Shares.
- The entire issued share capital of Perfect Develop is beneficially owned as to 33% by Mr. Ko, 6% by Mr. Au Yeung, 12% by Mr. Liu and 49% by Mr. Tao.
- Mr. Tao owns in aggregate 49 shares in, representing approximately 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SFO, to be interested in all the Shares in which Perfect Develop is interested, amounting to 641,525,370 Shares. Together with 108,480,960 Shares registered in his own name, Mr. Tao is deemed, by virtue of the SFO, to be interested in, 750,006,330 Shares in aggregate, amounting to approximately 58.71% of the issued share capital of the Company.
- Ms. Li Chun Yi is the wife of Mr. Tao and is taken to be interested in the Shares in which Mr. Tao is interested by virtue of the SFO.

(g) *Related party transactions*

During the two years preceding the date of this document, the Group was engaged in dealings with certain Directors and their associates as described in:

- (a) note 11 to section V of the accountants' report set out in Appendix I to this document; and
- (b) paragraphs 2, 3, 5, 8(a) of this Appendix.

(h) *Disclaimers*

Save as disclosed in this document:

- (i) none of the Directors or chief executive of the Company has any interest and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which he will be taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Main Board, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed on the Main Board, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed on the Main Board;
- (ii) none of the Directors or the experts named in paragraph 17 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this document, or which are proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole; and
- (iv) none of the experts named in paragraph 17 of this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 9. Share Option Scheme

If approved by the Shareholders at the Extraordinary General Meeting, the Share Option Scheme as detailed in the Prospectus will be terminated and be replaced by the Proposed Share Option Scheme upon commencement of trading in Shares on the Main Board, which is expected to be 9:30 a.m. on 4 August 2003.

As at the Latest Practicable Date, options to subscribe for an aggregate of 49,800,000 Shares have been granted to the employees, not including any Directors and other business associates under the Share Option Scheme. All such options have not been exercised up to Latest Practicable Date. The Directors confirmed that the Company has no present intention to grant any option under the Share Option Scheme prior to its proposed termination. Upon the termination of the Share Option Scheme, no further options would be offered pursuant to the Share Option Scheme but the Share Option Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted prior to the termination of the Share Option Scheme. The holders of such options will continue to be entitled to exercise their options in accordance with the provisions of the Share Option Scheme.

The options to subscribe for 30,000,000 Shares granted under the Share Option Scheme on 21 June 2002 have an exercise period from 16 August 2002 to 6 February 2012 with the exercise price at HK\$0.39, but each shall lapse in accordance with the terms of the Share Option Scheme if the grantees ceased to be an employee of the Group or the Group's customers or on any other grounds set out in the Share Option Scheme. Upon acceptance of the share options under the Share Option Scheme, each grantee has paid HK\$1.00 to the Company as consideration for the grant. The options to subscribe for 19,800,000 Shares granted under the Share Option Scheme on 28 February 2003 with the exercise price at HK\$0.24 have an exercise period from 1 March 2003 to 6 February 2012, but each shall lapse in accordance with the terms of the Share Option Scheme if the grantees ceased to be an employee of the Group or on any other grounds set out in the Share Option Scheme. Upon acceptance of the share options granted under the Share Option Scheme, each grantee has paid HK\$1 to the Company as the consideration for the grant.

Save as disclosed above, no options have been granted or agreed to be granted by the Company under the Share Option Scheme.

### Valuations of the options granted under the Share Option Scheme

The Company adopted Black-Scholes Options Pricing Model to calculate the value of share options.

For share options to subscribe for 30,000,000 Shares granted on 21 June 2002 with an exercise price of HK\$0.39 each, the fair value of the share options was HK\$0.25 at the date of grant with assumptions as follows:

1. using the annual Exchange Fund Notes interest rate of 1.57% as the risk-free interest rate;
2. the expected life is 9.5 years;
3. the expected volatility is 60.16% during the period from 7 February 2002, being the date of the listing of the Shares on GEM, to 20 June 2002; and
4. no expected dividend as the Company is newly listed on GEM.

For share options to subscribe for 19,800,000 Shares granted on 28 February 2003 with an exercise price of HK\$0.24 each, the fair value of the share options was HK\$0.15 at the date of grant with assumptions as follows:

1. using the annual Exchange Fund Notes interest rate of 1.9% as the risk-free interest rate;
2. the expected life is 9 years;
3. the expected volatility is 54.66% during the period from 7 February 2002, being the date of the listing of the Shares on GEM, to 28 February 2003; and
4. no expected dividend as the Company has a track record of dividends for only 1 year.

*Note:* The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

## 10. Proposed Share Option Scheme

### (a) Summary of terms

The following is a summary of the principal terms of the Proposed Share Option Scheme proposed to be adopted at the Extraordinary General Meeting in replacement of the Share Option Scheme:

#### (i) Purpose of the scheme

The purpose of the Proposed Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Proposed Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

#### (ii) Who may join

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants (the “Eligible Participants”), to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity (“Invested Entity”) in which any member of the Group holds an equity interest;

- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any employees or directors nominated by any customer of any member of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (hh) any business partners who have contributed by way of joint venture or co-operative arrangement to the development and growth of the Group,

and, for the purposes of the Proposed Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Proposed Share Option Scheme.

The basis of eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of the Group.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Proposed Share Option Scheme and any other share option scheme of the Group) to be granted under the Proposed Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent. of the Shares in issue as at the date of passing the relevant resolution adopting the Proposed Share Option Scheme (the "General Scheme Limit").

- (cc) Subject to (aa) above but without prejudice to (dd) below, the Company may issue a circular to the Shareholders and seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share options scheme of the Group must not exceed 10 per cent. of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Proposed Share Option Scheme and any other share option scheme of the Group) previously granted under the Proposed Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (dd) Subject to (aa) above and without prejudice to (cc) above, the Company may issue a circular to the Shareholders and seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the limit referred to in (cc) above to Eligible Participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a generic description of the specified participant who may be granted options, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Proposed Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

- (v) Grant of options to connected persons
- (aa) Any grant of options under the Proposed Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (bb) Where any grant of options to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1 per cent. of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the general meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting.

- (vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Proposed Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of offer for the grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Proposed Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Proposed Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price for Shares under the Proposed Share Option Scheme shall be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

(aa) Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(x) Restrictions on the time of grant of options

(aa) No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of the Directors for the approval of the Company's interim or annual results, and (bb) the last date on which the Company must publish its interim or annual results announcement under its listing agreement, and ending on the date of the announcement of the results, no option may be granted.



(bb) The Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xi) Period of the Proposed Share Option Scheme

The Proposed Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Proposed Share Option Scheme becomes unconditional.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation or termination and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of persistent or serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of its relations with the Group or by other reason whatsoever, and (bb) the option granted to the grantee under the Proposed Share Option Scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not already exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) Rights on winding up

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Proposed Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant Eligible Participant; and
- (bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Proposed Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital of the Company to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustments made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of the Directors.

(xxi) Termination of the Proposed Share Option Scheme

The Company may by resolution in general meeting at any time terminate the Proposed Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Proposed Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Proposed Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Proposed Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi); and
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

(xxiii) Others

- (aa) The Proposed Share Option Scheme is conditional on (i) the Shareholders' approval of the adoption of the Proposed Share Option Scheme and the termination of the Share Option Scheme being obtained; (ii) the Listing Committee of the Stock Exchange granting approval of the listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and any Shares which may fall to be allotted and issued pursuant to the exercise of any options which were granted under the Share Option Scheme, or which may be granted under the Proposed Share Option Scheme.
- (bb) The terms and conditions of the Proposed Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Proposed Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Proposed Share Option Scheme.
- (dd) The amended terms of the Proposed Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Proposed Share Option Scheme shall be approved by the Shareholders in general meeting.

(b) *Present status of the Proposed Share Option Scheme*

(i) Approval of the Listing Committee required

The Proposed Share Option Scheme is conditional on (i) the Shareholders' approval of the adoption of the Proposed Share Option Scheme and the termination of the Share Option Scheme being obtained; (ii) the Listing Committee of the Stock Exchange granting approval of the listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and any Shares which may fall to be allotted and issued pursuant to the exercise of any options which were granted under the Share Option Scheme, or which may be granted under the Proposed Share Option Scheme.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the granting of the approval of the listing on the Main Board of, and permission to deal on the Main Board in, the Shares which may fall to be allotted and issued pursuant to the exercise of any options which were granted under the Share Option Scheme, or which may be granted under the Proposed Share Option Scheme.

(iii) Grant of option

As at the date of this document, no options have been granted or agreed to be granted under the Proposed Share Option Scheme.

(iv) Value of options

The Directors consider that it is inappropriate to disclose the value of options which may be granted under the Proposed Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

## OTHER INFORMATION

### 11. Estate duty and tax indemnity

Each of Perfect Develop, Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao (together, the "Indemnifiers") has entered into a deed of indemnity on 30 January 2002 with and in favour of the Company (for itself and as trustee for each of its subsidiaries) and all its subsidiaries to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the share offer under the Prospectus becomes unconditional.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the share offer under the Prospectus becomes unconditional.

**12. Litigation**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**13. Sponsor**

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of options which were granted under the Share Option Scheme, or which may be granted under the Proposed Share Option Scheme.

**14. Financial Adviser**

Crosby is the financial adviser to the Company in relation to the Introduction. Jointly with CPY, Crosby has advised the Company on capital market strategies and future developments of the Group. Furthermore, Crosby has commented on the contents of this document and advised the Company on general valuation matters, and jointly with CPY, advised the Company on market sentiments towards the biopharmaceutical companies listed on the Stock Exchange and on the general conditions of the domestic and global stock markets.

**15. Preliminary expenses**

The estimated preliminary expenses of the Company in relation to the Introduction are approximately HK\$4,000,000 and are payable by the Company.

**16. Promoters**

- (a) The promoters of the Company are Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao.
- (b) Save as disclosed herein, within the two years preceding the date of this document, no amount or benefit has been paid or given to the promoters named in subparagraph (a) above.

**17. Qualifications of experts**

The qualifications of the experts who have given opinions and/or whose names are included in this document are as follows:

<b>Name</b>	<b>Qualification</b>
Core Pacific – Yamaichi Capital Limited	Deemed licensed corporation for the regulated activities of dealing in and advising on securities, corporate finance and asset management under the SFO
PricewaterhouseCoopers	Certified Public Accountants
BMI Appraisals Limited	Professional property surveyors and valuers
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Shu Jin & Co. Solicitors & Attorneys	Licensed legal advisers on PRC laws
Artur dos Santos Robarts	Macao lawyer and private notary
Nevett Ford	Australian lawyer and notary
PricewaterhouseCoopers Ltd.	Tax consultant

**18. Consents of experts**

CPY, PricewaterhouseCoopers, BMI Appraisals Limited, Conyers Dill & Pearman, Cayman, Shu Jin & Co. Solicitors & Attorneys, Artur dos Santos Robarts, Nevett Ford and PricewaterhouseCoopers Ltd. have given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

**19. Taxation of holders of Shares***(a) Hong Kong*

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) *Cayman Islands*

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

**20. Register of members and branch register of members**

The register of members of the Company is maintained in the Cayman Islands by Bank of Bermuda (Cayman) Limited and a branch register of members of the Company is maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.

**21. Miscellaneous**

The underwriters to the placing of Shares pursuant to the Prospectus received a commission of 4.5% of the aggregate placing price for the Shares placed out of which they paid sub-underwriting commissions and selling concessions.

CPY has entered into a sponsor's agreement with the Company on 30 January 2002 pursuant to which CPY agreed to act as the sponsor of the Company for the purpose of the GEM Listing Rules at an annual fee of HK\$800,000. The sponsor's agreement will be terminated forthwith upon the listing of the Shares on the Main Board.

Save as disclosed herein:

- (i) within two years preceding the date of this document:
  - (aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
  - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe or procuring subscription or agreeing to procure subscription of any Shares;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (iii) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2002 (being the date to which the latest audited financial statements of the Group were made up).



**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Chiu & Partners, 41st Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours up to and including 14 July 2003;

- (a) the memorandum of association of the Company;
- (b) the existing articles of association of the Company and the proposed alterations to the articles of association of the Company to be adopted at the Extraordinary General Meeting;
- (c) the audited financial statements of each of the companies comprising the Group for each of the two years ended 31 December 2002 (or for the period since their respective dates of incorporation where it is shorter);
- (d) the accountants' report, the text of which is set out in Appendix I to this document, and the statement of adjustments;
- (e) the letter, summary of values and valuation certificates prepared by BMI Appraisals Limited, the text of which is set out in Appendix II to this document;
- (f) the Prospectus;
- (g) the annual reports of the Company for the financial years ended 31 December 2001 and 2002;
- (h) the rules of the Share Option Scheme and the Proposed Share Option Scheme;
- (i) the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to in the section headed "General" in Appendix III to this document;
- (j) the Companies Law;
- (k) the material contracts referred to in the paragraph headed "Summary of material contracts" of Appendix IV to this document;
- (l) the written consents referred to in the paragraph headed "Consents of experts" of Appendix IV to this document; and
- (m) the service contracts referred to in the sub-paragraph headed "Particulars of service contracts" of Appendix IV to this document.