
IMPORTANT

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

If you have sold or transferred all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of the Company, nor have 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 circular.



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
REDUCTION OF MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
ADOPTION OF THE PROPOSED SHARE OPTION SCHEME,
TERMINATION OF THE EXISTING SHARE OPTION SCHEME,
ADOPTION OF THE PROPOSED ARTICLES OF
ASSOCIATION IN SUBSTITUTION
FOR THE ARTICLES OF ASSOCIATION
AND
DISCLOSURE OF CERTAIN FINANCIAL AND OTHER INFORMATION**

Financial adviser to Sino Biopharmaceutical Limited



DBS Asia Capital

A letter from the Board is set forth on pages 7 to 18 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 24 November, 2003 at 10:00 a.m. is set forth on pages 49 to 51 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof to the office of the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

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

30 October, 2003

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information of GEM-listed issuers.

CONTENTS

	<i>Page</i>
Definitions	1
Responsibility statement	5
Expected timetable	6
Letter from the Board	7
Appendix I – Summary of the principal terms of the Proposed Share Option Scheme	19
Appendix II – Summary of the principal terms of the Proposed Articles of Association	30
Notice of EGM	49

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings.

“2002 Convertible Bonds”	the one per cent. convertible bonds due 2006 in the aggregate principal amount of US\$6,000,000 constituted by the Convertible Bond Instrument and issued by the Company on 22 October, 2002
“2003 Convertible Bonds”	the one per cent. convertible bonds due 2006 in the aggregate principal amount of US\$4,000,000 constituted by the Convertible Bond Instrument and issued by the Company on 31 March, 2003
“Articles of Association”	the existing articles of association of the Company which were adopted on 19 September, 2000
“Board”	the board of Directors
“Business Day(s)”	any day(s) on which the Stock Exchange is open for the business of dealings in securities
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company”	Sino Biopharmaceutical Limited, a company incorporated in the Cayman Islands on 2 February, 2000 with limited liability, the Shares of which are listed on GEM
“Controlling Shareholder”	any person who has the power, directly or indirectly, to secure:– (i) by means of the holding of shares entitling him to exercise or control the exercise of 30 per cent. (or such lower amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers, as amended from time to time, being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company; or (ii) by means of controlling the composition of a majority of the Board; or (iii) by virtue of any powers conferred by the constitutional document of the Company or any other corporation, that the affairs of the Company are conducted in accordance with the wishes of such person

DEFINITIONS

“Convertible Bond Instrument”	an instrument dated 22 October, 2002 executed by the Company constituting US\$10 million one per cent. convertible bonds due 2006 of the Company
“Director(s)”	director(s) of the Company
“Effective Date”	on or about Monday, 8 December, 2003, the day on which the Proposed Withdrawal becomes effective
“EGM”	the extraordinary general meeting of the Company to be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 24 November, 2003 at 10:00 a.m., the notice of which is set forth on pages 49 to 51 of this circular
“Existing Share Option Scheme”	the share option scheme approved and adopted by the Company on 26 April, 2002
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Introduction”	the proposed listing of the Shares on the Main Board by way of introduction pursuant to the Listing Rules
“Latest Practicable Date”	27 October, 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Committee”	the listing sub-committee of the directors of the Stock Exchange responsible for Main Board listing matters
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM

DEFINITIONS

“Old Share Option Scheme” the share option scheme of the Company adopted on 19 September, 2000 which was terminated on 26 April, 2002

“Participant” means:–

(i) (a) any director or proposed director (whether executive or non-executive, including any independent non-executive Director), employee or proposed employee (whether full time or part time) of, or

(b) any individual for the time being seconded to work for,

any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder (a “Category A Participant”); or

(ii) any holder of any securities issued by any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder (a “Category B Participant”); or

(iii) (a) any business or joint venture partner, contractor, agent or representative of,

(b) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services incident to the business of the Company and/or its subsidiaries to,

(c) any investor, vendor, supplier, producer, developer, agent, licensor or service provider of,

(d) any customer, licensee (including any sub-licensee), wholesaler, retailer, trader or distributor of goods or services of, or

(e) any landlord or tenant (including any sub-tenant) of

any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder (a “Category C Participant”);

DEFINITIONS

	and, for the purposes of the Proposed Share Option Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants
“Proposed Articles of Association”	the proposed articles of association to be adopted by the Company at the EGM, a summary of the principal terms of which is set forth in Appendix II to this circular
“Proposed Share Option Scheme”	the proposed share option scheme to be adopted by the Company at the EGM, a summary of the principal terms of which is set forth in Appendix I to this circular
“Proposed Withdrawal”	the proposed voluntary withdrawal of the listing of the Shares on GEM
“Prospectus”	the prospectus of the Company dated 22 September, 2000
“Scheme Period”	means the period commencing on the date on which the Proposed Share Option Scheme is adopted by the Shareholders at the EGM and expiring at the close of business on the day immediately preceding on the tenth anniversary thereof
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Sponsor”	DBS Asia Capital Limited, a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the sponsor to the Introduction
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States
“per cent.”	percentage

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM 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 circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement herein misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

EXPECTED TIMETABLE

The expected timetable for the Proposed Withdrawal and the Introduction is set forth below:-

2003

Despatch of circular, notice of the EGM and related forms of proxy for the EGM to the Shareholders Thursday, 30 October,

Latest time for lodgement of forms of proxy for the EGM 10:00 a.m. on Saturday, 22 November,

EGM 10:00 a.m. on Monday, 24 November,

Notice of the Proposed Withdrawal to be published in The Standard (in English), Hong Kong Economic Times (in Chinese) and on the GEM website Tuesday, 25 November,

Last day of dealings in the Shares on GEM Friday, 5 December,

Withdrawal of listing of the Shares on GEM effective from 9:30 a.m. on Monday, 8 December,

Commencement of dealings in the Shares on the Main Board 9:30 a.m. on Monday, 8 December,



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:–

Tse Ping (*Chairman*)
Tao Huiqi
Wang Jinyu

Non-executive Director:–

Josephine Price

Independent non-executive Directors:–

Zheng Qun, Grace
Hu Ximing

Registered office:–

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

*Head office and principal place
of business in Hong Kong:–*

Unit 09, 41st Floor,
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

30 October, 2003

To the Shareholders

Dear Sirs

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
REDUCTION OF MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
ADOPTION OF THE PROPOSED SHARE OPTION SCHEME,
TERMINATION OF THE EXISTING SHARE OPTION SCHEME,
ADOPTION OF THE PROPOSED ARTICLES OF
ASSOCIATION IN SUBSTITUTION
FOR THE ARTICLES OF ASSOCIATION
AND**

DISCLOSURE OF CERTAIN FINANCIAL AND OTHER INFORMATION

INTRODUCTION

On 4 April, 2003, the Company announced that it submitted an application to the Stock Exchange on 4 April, 2003 for the proposed listing of the Shares on the Main Board by way of introduction and its intention to voluntarily withdraw the listing of the Shares on GEM conditional upon, among other things, the approval of the application for the proposed listing of the Shares on the Main Board.

LETTER FROM THE BOARD

The purpose of this circular is to give you further information regarding the Proposed Withdrawal, the Proposed Share Option Scheme and the Proposed Articles of Association, and to seek your approval of the relevant resolutions relating to the Proposed Withdrawal, the reduction of the minimum notice period for the Proposed Withdrawal, the adoption of the Proposed Share Option Scheme, the termination of the Existing Share Option Scheme and the adoption of the Proposed Articles of Association in substitution for the Articles of Association, to be proposed at the EGM.

THE PROPOSED WITHDRAWAL AND THE INTRODUCTION

On 4 April, 2003, the Sponsor, for and on behalf of the Company, submitted an application to the Stock Exchange for the listing on the Main Board of, and permission to deal on the Main Board in, (i) the Shares in issue; (ii) any Shares which may fall to be issued upon the exercise of any option which have been granted under the Old Share Option Scheme or the Existing Share Option Scheme or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme; and (iii) any Shares which may fall to be issued upon the exercise of the conversion rights under the 2002 Convertible Bonds or the 2003 Convertible Bonds. The Stock Exchange has informed the Sponsor that the Listing Committee has granted an approval in principle of the listing of, and permission to deal in, the Shares on the Main Board. Immediately prior to the listing of the Shares on the Main Board, the listing of the Shares on GEM will be withdrawn.

Pursuant to Rule 9.19 of the GEM Listing Rules, an issuer that has an alternative listing on another stock exchange or securities market recognised for this purpose by the Stock Exchange may not voluntarily withdraw its listing on GEM unless:–

- (a) the prior approval of the shareholders of the issuer has been obtained by way of an ordinary resolution passed at a duly convened meeting of the shareholders of the issuer; and
- (b) the issuer has given its shareholders at least three months' notice of the proposed withdrawal of listing.

In connection with the Proposed Withdrawal, the Company has applied to and has obtained from the Stock Exchange a reduction of the minimum three months' notice required under the GEM Listing Rules to a minimum of five clear Business Days, provided that:–

- (i) prior approval shall have been obtained from the Shareholders for the reduction of the notice period for the Proposed Withdrawal to a minimum of five clear Business Days;

LETTER FROM THE BOARD

- (ii) in respect of the Shares, there is no change in the board lot size or the share certificates, the share registrar, and the trading currency in connection with the proposal to transfer its listing status; and
- (iii) there is no other fact that leads the Stock Exchange to believe that the reduced notice period is not feasible.

Accordingly, the EGM is convened to seek the approval of the Shareholders for, among other things, the Proposed Withdrawal and the reduction of the notice period for the Proposed Withdrawal. After such approval shall have been obtained, a notice of the Proposed Withdrawal will be published not less than five clear Business Days before the Effective Date.

The Directors consider that it is in the best interest of the Shareholders and the Company as a whole that the notice period for the Proposed Withdrawal be reduced so that the Proposed Withdrawal and the Introduction can be carried out as soon as practicable after obtaining the relevant approvals from the Shareholders at the EGM.

Conditions of the Proposed Withdrawal

Implementation of the Proposed Withdrawal will be conditional on, among other things:–

- (a) the passing of an ordinary resolution by the Shareholders at the EGM to approve the Proposed Withdrawal;
- (b) the publication of a notice of the Proposed Withdrawal as required by the GEM Listing Rules after the approval of the Shareholders for the Proposed Withdrawal shall have been obtained at the EGM; and
- (c) the granting by the Listing Committee of the Stock Exchange of listing on the Main Board of, and permission to deal on the Main Board in, (i) the Shares in issue; (ii) any Shares which may fall to be issued upon the exercise of any option which have been granted under the Old Share Option Scheme or the Existing Share Option Scheme or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme; and (iii) any Shares which may fall to be issued upon the exercise of the conversion rights under the 2002 Convertible Bonds or the 2003 Convertible Bonds.

Effects of the Proposed Withdrawal

It is expected that dealings in the Shares on GEM will cease at 9:30 a.m. on the Effective Date and dealings in the Shares on the Main Board will commence at 9:30 a.m. on the Effective Date. The Company will make a further announcement after the EGM to publish the results of the EGM and the information relating to the Proposed Withdrawal and the trading arrangement of the Shares in respect of the Proposed Withdrawal and the Introduction.

LETTER FROM THE BOARD

The Proposed Withdrawal and the Introduction will not have any effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and does not involve any transfer or exchange of the existing share certificates. No change is proposed to be made to the board lot size, trading currency of the Shares and the share registrars of the Company in connection with the Proposed Withdrawal and the Introduction. If and when the Shares are listed on the Main Board upon implementation of the Introduction, you may be required to sign a new client agreement with your stockbrokers.

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 publication on the internet website operated by the Stock Exchange whilst the principal means of information dissemination by listed issuers on the Main Board is through newspapers. In addition, although listed issuers on the Main Board are not required to publish quarterly reports, the Company intends, following the listing of the Shares on the Main Board, to publish quarterly reports on a voluntary basis. 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 any disclosures as required under the Listing Rules.

Reasons for the Withdrawal

The Group is principally engaged in the research and development, production and sale of (i) a series of biopharmaceutical products for the medical treatment of ophthalmia, osteoarthritis and for external use to treat skin diseases; and (ii) a series of modernised Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral. The Group is also engaged in the research and development of a series of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases. The Group also has investment in a sino-foreign equity joint venture whose principal activities include the manufacture, distribution and sale of pharmaceutical products.

Since the listing of the Shares on GEM on 29 September, 2000, the Group has experienced considerable growth in business and has gained substantial increase in public recognition. Accordingly, the Directors consider that the listing of the Shares on the Main Board will enable the Company to gain further recognition from larger institutional investors, which will enhance the public profile and recognition of the Group.

Following the listing of the Shares on the Main Board, the Group's business strategies and objectives as stated in the Prospectus will remain unchanged.

In view of the above, the Directors consider that the listing of the Shares on the Main Board can further increase the public profile and recognition of the Company and is expected to provide a synergy which is beneficial and complementary to the future growth and development of the Group.

LETTER FROM THE BOARD

FINANCIAL INFORMATION ON THE GROUP

The listing document in relation to the Introduction includes the following financial information:–

Indebtedness

Borrowings

As at the close of business on 31 August, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$78.1 million which comprised an amount due to a related company of approximately HK\$0.1 million and convertible bonds payable of approximately HK\$78.0 million.

Contingent liabilities

As at 31 August, 2003, the Group had no material contingent liabilities.

Foreign exchange risk

The Group earns revenue and incurs costs and expenses mainly in RMB. The Company's accounts are stated in HK dollars and the payment of dividend will also be in HK dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies. The Directors believe that having regard to the working capital position of the Group and the convertibility of RMB to foreign currency in respect of current account items, the Group is able to meet its foreign exchange liabilities as they become due.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, neither the Company nor any of its subsidiaries at the close of business on 31 August, 2003 had any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

Foreign currency translation

All amounts referred to in this indebtedness statement and under "Liquidity, financial resources and capital structure" in this section which are denominated in foreign currencies have been translated into Hong Kong dollars at the relevant exchange rates prevailing at the close of business on 31 August, 2003.

LETTER FROM THE BOARD

Liquidity, financial resources and capital structure

Net current assets

As at 31 August, 2003, the Group had net current assets of approximately HK\$301.3 million. Current assets comprised cash and bank balances of approximately HK\$333.4 million, inventories of approximately HK\$47.5 million, trade receivables of approximately HK\$89.3 million, prepayments, deposits and other receivables of approximately HK\$7.9 million, and amounts due from related companies of approximately HK\$0.1 million. Current liabilities comprised trade payables of approximately HK\$21.5 million, other payables and accrued liabilities of approximately HK\$143.2 million, amounts due to related companies of approximately HK\$3.6 million which arose from trading transactions, amount due to a related company of approximately HK\$0.1 million which arose from non-trading transactions and profits tax payable of approximately HK\$8.5 million.

Capital expenditure commitments

The capital expenditure commitments of the Group as at 31 August, 2003 in relation to workshop renovation and production facilities upgrading authorised by the relevant board of directors but not contracted for and contracted for but not provided in the financial statements amounted to approximately HK\$27.3 million and approximately HK\$6.7 million, respectively. Such capital expenditure commitments are expected to be funded by the Group's internal resources.

Financial resources

The Group generally finances its operations and meets its debt servicing with cash generated from its business operations.

As at 31 August, 2003, the Group had cash and bank balances of approximately HK\$333.4 million and did not have any banking facilities as at 31 August, 2003.

LETTER FROM THE BOARD

Adjusted net tangible assets

The following statement of adjusted net tangible assets of the Group is based on the consolidated net assets of the Group as at 30 April, 2003 and adjusted as described below:–

	<i>Notes</i>	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 30 April, 2003		303,904
<i>Less:</i> Goodwill and intangible assets		<u>(5,891)</u>
Audited consolidated net tangible assets of the Group as at 30 April, 2003		298,013
<i>Add:</i> Consolidated profit after tax and minority interests of the Group for the four months ended 31 August, 2003 based on its unaudited management accounts		29,854
Net surplus arising on revaluation of the Group's property interest as at 31 July, 2003	<i>(1)</i>	1,789
<i>Less:</i> Interim dividend	<i>(2)</i>	<u>(16,600)</u>
Adjusted net tangible assets		<u><u>313,056</u></u>
Adjusted net tangible asset value per Share	<i>(3)</i>	<u><u>HK\$0.94</u></u>

Notes:–

- (1) Based on the revaluation performed by DTZ Debenham Tie Leung Limited, an independent firm of professional surveyors, the surplus will be incorporated into the Group's financial statements for the year ending 31 December, 2003 and an additional depreciation charge of approximately HK\$81,000 per annum will be incurred.
- (2) On 8 August, 2003, the Directors recommended an interim dividend of HK5 cents per Share totalling HK\$16,600,000. The dividend was paid on 15 September, 2003 to Shareholders whose names appeared on the register of members of the Company on 4 September, 2003.
- (3) Based on the 332,000,000 Shares in issue upon the Introduction, but taking no account of any Shares which may be issued pursuant to the exercise of any option which have been granted under the Old Share Option Scheme or the Existing Share Option Scheme or may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme, or upon the exercise of the conversion rights under the 2002 Convertible Bonds or the 2003 Convertible Bonds or upon the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

LETTER FROM THE BOARD

COMPARISON OF USE OF PROCEEDS RAISED FROM THE COMPANY'S INITIAL PUBLIC OFFER WITH ACTUAL APPLICATION

The Company raised net proceeds of approximately HK\$60 million from its initial public offer. The following table sets forth the intended use of the net proceeds as stated in the Prospectus and the actual application of such net proceeds up to the Latest Practicable Date:–

	<i>Notes</i>	Amount to be used up to 31 December, 2002 as disclosed in the Prospectus HK\$'million	Actual amount used up to the Latest Practicable Date HK\$'million
For research and development activities including the establishment of a research and development centre in Beijing	<i>1</i>	15.0	6.8
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products	<i>2</i>	20.0	–
For the expansion of the distribution networks of the Group	<i>3</i>	10.0	–
For the establishment of the Group's website and commencement of e-commerce	<i>4</i>	3.0	0.8
General working capital		12.0	12.0
Total		60.0	19.6

Notes:–

1. Due to the delay in establishing the research and development centre in Beijing, which was established in October 2002, and accordingly, the delay in research and development activities, the actual amount used up to the Latest Practicable Date was only HK\$6.8 million. The Group intends to use the remaining funds for the future development of the research and development centre in Beijing, which is in accordance with the planned use of proceeds.
2. The Group has conditionally agreed to acquire an aggregate of 35 per cent. equity interest in Beijing Tide Pharmaceutical Co., Ltd. pursuant to certain agreements made by the Group with other parties on 17 October, 2003, details of which have been set forth in the announcement of the

LETTER FROM THE BOARD

Company dated 17 October, 2003. The Group intends to apply part of the net proceeds from its initial public offer in 2000 and/or the net proceeds from the issue of the 2002 Convertible Bonds and/or the 2003 Convertible Bonds to satisfy the consideration of RMB79,996,700 payable by the Group for such acquisition, which is in accordance with the planned use of proceeds.

3. The Company is in the process of negotiating with potential cooperative partners and no binding agreement has been reached.
4. As at the Latest Practicable Date, the Group has not yet commenced its e-commerce business as the relevant PRC laws and regulations governing e-commerce business relating to pharmaceuticals in the PRC have not yet been published. Currently, the Company's principal subsidiaries have established their own websites for the purpose of advertising and promoting their pharmaceutical products. The Directors intend to use the remaining funds for the commencement of e-commerce as and when the relevant PRC laws and regulations have developed.

PROPOSED SHARE OPTION SCHEME

In connection with the Introduction, the Directors propose to seek the approval of the Shareholders for the adoption of the Proposed Share Option Scheme, the provisions of which will comply with the requirements of the Listing Rules. A summary of the principal terms of the Proposed Share Option Scheme is set forth in Appendix I to this circular. The terms of the Proposed Share Option Scheme provide that in granting options under the Proposed Share Option Scheme, the Board can determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Proposed Share Option Scheme can be exercised. The Board will also determine the option price per Share payable on the exercise of an option according to the terms of the Proposed Share Option Scheme. Subject to the Proposed Share Option Scheme becoming effective, the Board intends to exercise its powers under the Proposed Share Option Scheme during the Scheme Period with the objective of serving the purposes of the Proposed Share Option Scheme.

The Board considers that it is not appropriate to state the value of all options that can be granted under the Proposed Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the option value have not been determined. Such variables include the exercise price, exercise period, lock up period (if any), performance targets set (if any) and other relevant variables. The Board believes that any calculation of the value of any option which might have been granted on the Latest Practicable Date would be based on a number of speculative assumptions and would therefore not be meaningful but would be misleading to the Shareholders.

The Existing Share Option Scheme will be replaced by the Proposed Share Option Scheme when the Proposed Share Option Scheme shall have conditionally been approved and adopted by the Shareholders and such adoption shall have become unconditional.

LETTER FROM THE BOARD

As at the Latest Practicable Date, options to subscribe for an aggregate of 18,000,000 Shares (which include the options granted to Mr. Tse Ping, Mr. Wang Jinyu and Mr. Tao Huiqi) granted pursuant to the Old Share Option Scheme were outstanding. Details are as follows:–

Number of share options	Number of employees	Subscription price per share HK\$	Option Period
18,000,000	13	0.74	2 January, 2004 to 1 January, 2007

Notwithstanding the proposed termination of the Existing Share Option Scheme, the aforesaid outstanding options previously granted and remain unexercised under the Old Share Option Scheme shall remain valid and exercisable in accordance with the provisions of the Old Share Option Scheme.

Conditions of the Proposed Share Option Scheme

The adoption of the Proposed Share Option Scheme will be conditional upon:–

- (a) the passing by the Shareholders at the EGM of the ordinary resolution approving the adoption of the Proposed Share Option Scheme and the termination of the Existing Share Option Scheme; and
- (b) the granting by the Listing Committee of the Stock Exchange of listing on the Main Board of, and permission to deal on the Main Board in, (i) the Shares in issue; (ii) any Shares which may fall to be issued upon the exercise of any option which have been granted under the Old Share Option Scheme or the Existing Share Option Scheme or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme; and (iii) any Shares which may fall to be issued upon the exercise of the conversion rights under the 2002 Convertible Bonds or the 2003 Convertible Bonds.

PROPOSED ARTICLES OF ASSOCIATION

In connection with the Introduction and to remove references to GEM and to make other changes in the Articles of Association (including the removal of the provisions relating to the retirement of Directors by rotation at the annual general meeting), the Directors propose to seek the approval of the Shareholders for the adoption of the Proposed Articles of Association, the provisions of which will comply with the requirements of the Listing Rules. Save as stated above, the provisions of the Proposed Articles of Association are in all material aspect identical to the Articles of Association. A summary of the principal terms of the Proposed Articles of Association is set forth in Appendix II to this circular. The Articles of

LETTER FROM THE BOARD

Association will be substituted by the Proposed Articles of Association when the Proposed Articles of Association shall have conditionally been approved and adopted by the Shareholders at the EGM and such adoption shall have become unconditional.

Conditions of the Proposed Articles of Association

The adoption of the Proposed Articles of Association will be conditional upon:–

- (a) the passing by the Shareholders at the EGM of the special resolution approving the adoption of the Proposed Articles of Association in substitution for the Articles of Association; and
- (b) the listing of the Shares on the Main Board.

THE EGM

Set forth on pages 49 to 51 of this circular is a notice convening the EGM to be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 24 November, 2003 at 10:00 a.m., or any adjournment thereof, at which ordinary resolutions will be proposed to consider and, if thought fit, approve, among other matters, the following:–

- (a) the Proposed Withdrawal and the reduction of the notice period for the Proposed Withdrawal; and
- (b) the adoption of the Proposed Share Option Scheme and the termination of the Existing Share Option Scheme.

At the EGM, a special resolution will also be proposed to consider and, if thought fit, to approve the adoption of the Proposed Articles of Association in substitution for the Articles of Association.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

DOCUMENTS AVAILABLE FOR INSPECTION

The listing document issued by the Company in connection with the Introduction is enclosed with this circular, for information purposes only, and will be available for inspection at the EGM.

LETTER FROM THE BOARD

Copies of the following documents will be available for inspection at the offices of Morrison & Foerster at 21st Floor, Entertainment Building, 30 Queen's Road Central, Hong Kong during normal business hours up to and including 24 November, 2003 and will also be available for inspection at the EGM:–

- (i) the Articles of Association and the Proposed Articles of Association; and
- (ii) the respective rules of the Existing Share Option Scheme and the Proposed Share Option Scheme.

RECOMMENDATION

The Board considers that the Proposed Withdrawal, the reduction of the notice period for the Proposed Withdrawal, the adoption of the Proposed Share Option Scheme, the termination of the Existing Share Option Scheme and the adoption of the Proposed Articles of Association in substitution for the Articles of Association are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends that the Shareholders vote in favour of each of the resolutions set forth in the notice of the EGM.

Mr. Tse Ping, the Chairman and the Controlling Shareholder who as at the Latest Practicable Date held 234,120,000 Shares through Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and his personal holding, representing approximately 70.52 per cent. of the issued share capital of the Company, has confirmed to the Company that he and his said companies will vote in favour of each of the resolutions to be proposed at the EGM.

Your attention is drawn to the appendices to this circular.

Yours faithfully
For and on behalf of the Board
Tse Ping
Chairman

The following is a summary of the principal terms of the Proposed Share Option Scheme proposed to be adopted by the Shareholders at the EGM to replace the Existing Share Option Scheme.

(I) PURPOSE OF THE PROPOSED SHARE OPTION SCHEME

The purpose of the Proposed Share Option Scheme is to enable the Board to grant options to selected Participants as incentives or rewards for their contribution or potential contribution to the Group.

(II) WHO MAY JOIN AND BASIS OF ELIGIBILITY

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Participant to subscribe at a price calculated in accordance with paragraph (III) below for such number of shares of the Company as it may determine in accordance with the terms of the Proposed Share Option Scheme.

The basis of eligibility of any of the Participants to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(III) OPTION PRICE FOR SUBSCRIPTION OF SHARES OF THE COMPANY

The option price per share of the Company payable on the exercise of an option is to be determined by the Board provided always that it shall be at least the higher of:-

- (aa) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the Participant), which must be a business day; and
- (bb) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the Participant),

(as subsequently adjusted pursuant to the terms of the Proposed Share Option Scheme, if relevant), provided that the option price per share of the Company shall in no event be less than the nominal amount of one share of the Company.

(IV) ACCEPTANCE OF OFFERS

An offer for the grant of options must be accepted within thirty days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.00.

(V) MAXIMUM NUMBER OF SHARES OF THE COMPANY

- (aa) Subject to sub-paragraph (bb) and (cc) below, the maximum number of shares of the Company issuable upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option schemes of the Company as from the commencement of the Scheme Period (excluding, for this purpose, options which have lapsed in accordance with the terms of the Proposed Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10 per cent. of the shares of the Company in issue as at the date of the EGM (the “Scheme Mandate”). The shares of the Company underlying any options granted under the Proposed Share Option Scheme or any other share option schemes of the Company which have been cancelled (but not options which have lapsed) will be counted for the purpose of the Scheme Mandate.
- (bb) The Scheme Mandate may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10 per cent. of the shares of the Company in issue at the date of the Shareholders’ approval of such refreshed Scheme Mandate. Options previously granted under the Proposed Share Option Scheme or any other share option schemes of the Company (including those exercised, outstanding, cancelled or lapsed in accordance with the terms of the Proposed Share Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the total number of shares of the Company subject to the refreshed Scheme Mandate.
- (cc) The Company may also, by obtaining separate approval of the Shareholders in general meeting, grant options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Participants specifically identified by the Company before such approval is sought.
- (dd) The aggregate number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option schemes of the Company must not exceed 30 per cent. of the shares of the Company in issue from time to time.

(VI) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The maximum number of shares of the Company issued and to be issued upon exercise of options granted under the Proposed Share Option Scheme and any other share option schemes of the Company to any Participant (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed one per cent. of the shares of the Company in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders with such Participant and his associates abstaining from voting.

(VII) GRANT OF OPTIONS TO CERTAIN CONNECTED PERSONS

- (aa) Any grant of an option to a Director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (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) will result in the total number of shares of the Company issued and to be issued upon exercise of options already granted and to be granted to such person under the Proposed Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant (in relation to any option the offer of which is accepted by such person to whom the offer was made, the date on which an option is offered to such person, which must be a business day):–
 - (1) representing in aggregate over 0.1 per cent. of the shares of the Company in issue; and
 - (2) having an aggregate value, based on the closing price of the shares of the Company at each date of grant (in relation to any option the offer of which is accepted by such person to whom the offer was made, the date on which an option is offered to such person, which must be a business day), in excess of HK\$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of the Company, with voting to be taken by way of poll. All connected persons of the Company shall 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 which the Company is required to send to Shareholders in accordance with the Listing Rules. Any change in the terms of an option granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(VIII) TIME OF EXERCISE OF OPTION

An option may be exercised in accordance with the terms of the Proposed Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted).

(IX) PERFORMANCE TARGETS

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(X) RANKING OF SHARES OF THE COMPANY

If under the terms of a resolution passed or an announcement made by the Company prior to the date of exercise of an option, a dividend is to be or is proposed to be paid, or shares of the Company are to be issued or proposed to be issued by way of the capitalisation of profits or reserves or by way of rights under an offer made *pro rata*, to Shareholders on the register of members of the Company on a date prior to such date of exercise, the shares of the Company to be issued upon such exercise will not rank for such dividend or such shares of the Company. Subject as aforesaid, shares of the Company allotted upon the exercise of an outstanding option will be subject to all the provisions of the memorandum of association and articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid shares of the Company in issue on the date of such exercise. Shares of the Company allotted upon the exercise of an option for the time being outstanding shall not carry voting rights until completion of the registration of the option holder (or any other person) as the holder thereof.

(XI) RIGHTS ARE PERSONAL TO GRANTEE

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(XII) RIGHTS OF EXERCISE FOR GRANTEES WHO WERE CATEGORY A PARTICIPANTS

If a grantee of an option who at the time of grant of an option to him qualified as a Participant because he was a Category A Participant ceases to be such a Category A Participant:–

- (aa) by reason of ill-health or injury or disability or death, then he or (as the case may be) his personal representative(s) may exercise his outstanding option within six months or up to the expiration of the relevant option period, whichever is earlier, failing which the option will lapse; or
- (bb) because the relevant member of the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder by reason of his employment or engagement with, or secondment to, which he qualified as a Category A Participant at the time the option was granted ceases to be a member of the Group or a Controlling Shareholder or a company controlled by the relevant Controlling Shareholder (as the case may be), then he may exercise his outstanding option within six months or up to the expiration of the relevant option period, whichever is earlier, failing which the option will lapse; or
- (cc) by reason of retirement in accordance with his contract of employment or service, then he may exercise his outstanding option within six months after he so ceases or, if the Board in its absolute discretion determine, within six months following the date of his sixtieth birthday where the retirement takes effect prior to such date, failing which the option will lapse; or
- (dd) by reason of voluntary resignation or dismissal, or upon expiration of his term of directorship (unless immediately renewed upon expiration), or by termination of his employment or service in accordance with the termination provisions of his contract of employment or service by the relevant company otherwise than by reason of redundancy, then his outstanding options shall lapse on the date he so ceases; or
- (ee) on the grounds that he has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has committed any serious misconduct or has been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the grantee or the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder into disrepute), then his outstanding options shall lapse automatically on the date of his ceasing to be a Participant; or

- (ff) for any other reason, any options exercisable at the date he so ceases may be exercised within three months of the date he so ceases, failing which the option will lapse,

provided always that in each case the Board in its absolute discretion may decide that such options or any part thereof shall not so lapse or determined subject to such conditions or limitations as it may decide.

(XIII) RIGHTS OF EXERCISE FOR GRANTEES WHO WERE CATEGORY B PARTICIPANTS

If a grantee of an option who at the time of grant of an option to him qualified as Participant because he was a Category B Participant:–

- (aa) ceases to be a Category B Participant by reason that such grantee ceases to be a holder of any securities issued by the relevant member of the Group or the relevant Controlling Shareholder or the relevant company controlled by a Controlling Shareholder, then his outstanding option shall lapse on the date he so ceases; or
- (bb) ceases to be a Category B Participant because the relevant member of the Group by reason of his holding of securities in which he qualified as a Category B Participant at the time the option was granted ceases to be a member of the Group, then he may exercise his outstanding option within six months after he so ceases or up to the expiration of the option period, whichever is earlier, failing which the option will lapse; or
- (cc) ceases to be a Category B Participant because the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder by reason of his holding of securities in which he qualified as a Category B Participant at the time the option was granted ceases to be a Controlling Shareholder or a company controlled by the relevant Controlling Shareholder (as the case may be), then his outstanding option shall lapse on the date he so ceases; or
- (dd) (if the grantee is an individual) dies, then his personal representative(s) may exercise his outstanding option within six months after his death or up to the expiration of the option period, whichever is earlier, failing which the option will lapse; or
- (ee) has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has committed any serious misconduct or has been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the grantee or the Group

or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder into disrepute), then his outstanding option shall lapse automatically on the date of the relevant court order, resolution, misconduct or conviction or the effective date of the relevant arrangements or composition (as the case may be),

provided always that in each case the Board in its absolute discretion may decide that such option or any part thereof shall not so lapse or determine subject to such conditions or limitations as it may decide.

(XIV) RIGHTS OF EXERCISE FOR GRANTEEES WHO WERE CATEGORY C PARTICIPANTS

If a grantee of an option who at the time of grant of an option to him qualified as a Participant because he was a Category C Participant:-

- (aa) has, in the absolute determination of the Board, committed any breach of contract entered into between such Participant and the relevant member of the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder; or
- (bb) has committed any act of bankruptcy or become insolvent or made any arrangements or composition with his creditors generally or committed any serious misconduct or been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the grantee or the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder into disrepute);

then his outstanding options shall lapse and determine automatically on the date of the Board's determination referred to in (aa) above or, as the case may be, the date of the relevant court order, resolution, misconduct or conviction or the effective date of the relevant arrangements or composition (as the case may be) for the relevant event referred to in (bb) above; or

- (cc) if the grantee (if he is an individual) dies, then his personal representative(s) may exercise his outstanding option within six months after his death or up to the expiration of the option period, whichever is earlier, failing which the option will lapse,

provided always that in each case the Board in its absolute discretion may decide that such options or any part thereof shall not so lapse or determined subject to such conditions or limitations as it may decide.

**(XV) RIGHTS ON EXERCISE FOR GRANTEES WHICH WERE COMPANIES
CONTROLLED BY ANY OF THE PARTICIPANTS**

In respect of any option granted to a company which qualified as a Participant because it was a company controlled by a person (“Such Person”) who was a Category A Participant or Category B Participant or Category C Participant:–

- (aa) the relevant provisions set out in paragraph (XII), (XIII), or (XIV) (as the case may be) would apply to its outstanding option as if the option had been granted to Such Person; and
- (bb) its outstanding option shall lapse on the date it ceases to be a company controlled by Such Person,

provided always that in each case the Board in its absolute discretion may decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as it may decide.

(XVI) FAILURE TO MEET CONTINUING ELIGIBILITY CRITERIA

If the Board in the offer granting the relevant option has specified that the grantee has to meet certain continuing eligibility criteria and that the failure of the grantee to meet any such continuing eligibility criterion would entitle the Company to cancel the option then outstanding (or part thereof), then upon the failure of the grantee to meet any such continuing eligibility criterion, his outstanding option shall lapse and determine on the date the Board exercises the Company’s right to cancel the option on the ground of such failure.

(XVII) RIGHTS ON A GENERAL OFFER

If a general offer by way of takeover is made to all the Shareholders 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 grantee of an option shall, subject to paragraph (VIII) above, be entitled to exercise at any time within a period of fourteen days after such control has been obtained by the offeror any option in whole or in part to the extent not already exercised (and notwithstanding any restrictions which would otherwise have prevented such option from being exercisable at that time). For the avoidance of doubt, an option not so exercised shall remain valid in accordance with its terms and subject to such restrictions as applied to it before the general offer.

(XVIII) RIGHTS ON WINDING-UP

If notice is given by the Company to Shareholders of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, the Company shall forthwith give notice to all grantees of options and each grantee shall be entitled, at any time

no later than two business days prior to the proposed general meeting of the Company to exercise any of his outstanding options in whole or in part to the extent not already exercised (and notwithstanding any restrictions which would otherwise have prevented such option from being exercisable at that time). If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse and determine on the commencement of the winding-up.

(XIX) RIGHTS ON COMPROMISE OR ARRANGEMENT

In the event of a compromise or arrangement between the Company and Shareholders or the Company's creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company pursuant to the Companies Law, notice of the relevant meeting shall be given to the grantees of options on the same day notice is given to the Shareholders and the Company's creditors, and thereupon each grantee (or where permitted his personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the Grand Court of the Cayman Islands be entitled to exercise his option, but such exercise of an option shall be conditional upon such compromise or arrangement being sanctioned by the Grand Court of the Cayman Islands and becoming effective. Failing such exercise, all options will lapse.

(XX) LAPSE OF OPTIONS

An option shall lapse automatically on the earliest of:-

- (aa) the expiry of the period referred to in paragraph (VIII) above;
- (bb) the date on which the grantee commits a breach of paragraph (XI) above, if the Board shall exercise the Company's right to cancel the option;
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (XII), (XIII), (XIV), (XV) or (XVI) above; and
- (dd) the expiry of any of the relevant periods referred to in paragraph (XVIII) or (XIX) above.

(XXI) CANCELLATION OF OPTIONS GRANTED BUT NOT YET EXERCISED

Following the cancellation of any options granted under the Proposed Share Option Scheme but not exercised, new options may only be granted to the same grantee under the Proposed Share Option Scheme with available unissued options (excluding the cancelled options) within the limit of the Scheme Mandate then available to the Board.

(XXII) EFFECTS OF ALTERATIONS TO CAPITAL

In the event of any reduction of share capital, sub-division or consolidation of the shares of the Company or any capitalisation issue or rights issue, the number of shares of the Company comprised in each option and/or the option price may be adjusted in such manner as the Board (having, except in the case of an issue of shares of the Company by way of the capitalisation of profits or reserves, received a statement in writing from the auditors of the Company or an independent financial adviser appointed for such purpose that in their opinion the adjustments proposed are fair and reasonable) may deem appropriate, provided always that (in the case of adjustment to the number of shares of the Company comprised in each outstanding option) the grantee shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments, and that no such adjustments shall be made the effect of which would be to enable a share of the Company to be issued at less than its nominal value. The issue of shares of the Company as consideration in a transaction will not be regarded as a circumstance requiring adjustment.

(XXIII) PERIOD OF THE PROPOSED SHARE OPTION SCHEME

The Proposed Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Proposed Share Option Scheme is adopted by Shareholders at the EGM and shall expire at the close of business on the day immediately preceding the tenth anniversary thereof unless terminated earlier by Shareholders in general meeting.

(XXIV) ALTERATION TO THE PROPOSED SHARE OPTION SCHEME

- (aa) No amendment shall be made to the terms and conditions of the Proposed Share Option Scheme which extends the class of Participants, or alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules except with the prior approval of the Shareholders in general meeting.
- (bb) Any amendment to any terms of the Proposed Share Option Scheme which are of a material nature or any change to the options granted must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Proposed Share Option Scheme.
- (cc) Any change to the authority of the Board in relation to any alteration to the terms of the Proposed Share Option Scheme must be approved by Shareholders in general meeting.
- (dd) Any amendment to any terms of the Proposed Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(XXV) RESTRICTIONS ON THE TIME OF GRANT OF OPTION

A grant of options may not 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, no option may be granted during the period commencing one month immediately preceding the earlier of: (aa) the date of the Board meeting for the approval of the Company's interim or annual results; and (bb) the deadline for the Company to publish its interim or annual results announcement, and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

(XXVI) TERMINATION TO THE PROPOSED SHARE OPTION SCHEME

The Company may, with the approval in general meeting of the Shareholders, terminate the Proposed Share Option Scheme at any time following which no further grant of options shall be offered but in all other respects the rules of the Proposed Share Option Scheme shall continue in full force and effect in respect of such options as may have been granted under the Proposed Share Option Scheme prior to such termination. Any options granted prior to such termination, including options exercised or outstanding, under the Proposed Share Option Scheme shall continue to be valid and exercisable in accordance with the rules of the Proposed Share Option Scheme.

(XXVII) CONDITIONS OF THE PROPOSED SHARE OPTION SCHEME

The Proposed Share Option Scheme is conditional on (1) the passing by the Shareholders of an ordinary resolution at the EGM to approve the adoption of the Proposed Share Option Scheme; and (2) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the shares of the Company to be issued pursuant to the exercise of any options which may be granted under the Proposed Share Option Scheme.

The following is a summary of the principal terms of the Proposed Articles of Association to be adopted by the Shareholders at the EGM in substitution for the Articles of Association.

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum of Association of the Company (the “Memorandum”) and the Proposed Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may 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 Board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Proposed Articles of Association) and the Memorandum and the Proposed Articles of Association, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Proposed Articles of Association and, where applicable, the rules of any Designated Stock Exchange (as defined in the Proposed Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Proposed Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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 Proposed Articles of Association or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Proposed Articles of Association, 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 is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Proposed Articles of Association prohibiting the making of loans to Directors.

(v) 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 the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Proposed Articles of Association, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Proposed Articles of Association. A Director may be or become a director or other officer of, or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Proposed Articles of Association, the Board 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 it thinks 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.

Subject to the Companies Law and the Proposed Articles of Association, 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 shall any such contract 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 shall declare the nature of his interest at the meeting of the Board 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 Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:—

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in 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;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Proposed Articles of Association)) is beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be 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 the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or

other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. 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. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

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 any breach of any contract between him and the Company) and may by ordinary resolution appoint another person in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:–

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special reason, he is absent from meetings of the Board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; and
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Proposed Articles of Association.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it 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, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and 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: These provisions, in common with the Proposed Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The Board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Proposed Articles of Association provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Proposed Articles of Association may be rescinded, altered or amended by the Company in general meeting by special resolution. The Proposed Articles of Association state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Proposed Articles of Association or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:–

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, 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; and
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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 general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Proposed Articles of Association relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Proposed Articles of Association, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, 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 ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Proposed Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Proposed Articles of Association.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Proposed Articles of Association, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Proposed Articles of Association, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), 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 the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy 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) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Proposed Articles of Association)) at such time and place as may be determined by the Board.

(h) Accounts and audit

The Board 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 receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Proposed Articles of Association; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Proposed Articles of Association), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary of financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Proposed Articles of Association. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (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 time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company

other than such as, under the provisions of the Proposed Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Proposed Articles of Association) or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so 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. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time 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 Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall 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 registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Proposed Articles of Association) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place

at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board 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 be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Proposed Articles of Association), at such times and for such periods as the Board may 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 thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Proposed Articles of Association to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Proposed Articles of Association).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Proposed Articles of Association relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Proposed Articles of Association provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and

(ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board 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 up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers 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 if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Proposed Articles of Association and to the terms of allotment, the Board may from time to time make such calls 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). A call may be made payable either in one lump sum or by installments. 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 twenty (20) per cent. per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment 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 Board 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 monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the Board determines.

(p) Inspection of register of members

Pursuant to the Proposed Articles of Association the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board, at the Registration Office (as defined in the Proposed Articles of Association), unless the register is closed in accordance with the Proposed Articles of Association.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Proposed Articles of Association the quorum for a general meeting shall be two members present in person (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 (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Proposed Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Proposed Articles of Association relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, 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 shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Proposed Articles of Association, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three (3) in total number) for any sum payable in cash to the holder of such shares

have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Proposed Articles of Association) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Proposed Articles of Association), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Proposed Articles of Association) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Proposed Articles of Association provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

NOTICE OF EXTRAORDINARY GENERAL MEETING



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Sino Biopharmaceutical Limited (the “Company”) will be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 24 November, 2003 at 10:00 a.m. to consider and, if thought fit, pass the following resolutions as ordinary and special resolutions (as the case may be):–

ORDINARY RESOLUTIONS

1. **“THAT:**

- (A) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, (i) the shares of the Company (the “Shares”) in issue; (ii) any Shares which may fall to be issued upon the exercise of options which have been granted under the share option scheme of the Company adopted on 19 September, 2000 (which was terminated on 26 April, 2002) (the “Old Share Option Scheme”) or the Existing Share Option Scheme (as defined in the resolution set forth as Resolution No. 2 in the notice convening this meeting) or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the Proposed Share Option Scheme (as defined in the resolution set forth as Resolution No. 2 in the notice convening this meeting); and (iii) any Shares which may fall to be issued upon the exercise of the conversion rights under the 2002 Convertible Bonds or the 2003 Convertible Bonds (both as defined in the circular of the Company dated 30 October, 2003 in which the notice convening this meeting is set out) and the publication of a notice of the proposed withdrawal of the listing of the Shares on the Growth Enterprise Market of the Stock Exchange (“GEM”) (the “Proposed Withdrawal”) by not less than such period as the shareholders of the Company shall have approved under paragraph (B) below of this Resolution before the day on which the Proposed Withdrawal is effective, the listing of the Shares on GEM shall cease with effect from such date and time as the directors of the Company may designate and any one director of the Company or the company secretary of the Company be and he/she is hereby authorised generally to do all such things for and on behalf of the Company as he/she may deem necessary, desirable or expedient to effect and implement the foregoing; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (B) the notice period required under Rule 9.19(3) of the Rules Governing the Listing of Securities on GEM in connection with the Proposed Withdrawal be reduced to a minimum of five clear days on which the Stock Exchange is open for the business of dealings in securities from the date on which the shareholders of the Company shall have approved the Proposed Withdrawal.”
2. “**THAT**, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, the shares of the Company (the “Shares”) in issue and any Shares which may fall to be issued upon the exercise of options which have been granted under the Old Share Option Scheme (as defined in the resolution set forth as Resolution No. 1 in the notice convening this meeting) or the Existing Share Option Scheme (as defined below in this resolution) or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the proposed share option scheme of the Company (the “Proposed Share Option Scheme”), the rules of which are contained in the document marked “A” produced to the meeting and for the purposes of identification signed by the Chairman thereof, the Proposed Share Option Scheme be and is hereby approved and adopted and the board of directors of the Company be and is hereby authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Proposed Share Option Scheme including, but without limitation:
- (1) to administer the Proposed Share Option Scheme under which options may be granted to Participants (as defined in the Proposed Share Option Scheme) to subscribe for Shares;
 - (2) to modify and/or amend the Proposed Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Proposed Share Option Scheme relating to modification and/or amendment;
 - (3) to make application at the appropriate time or times to the Stock Exchange, and any other stock exchanges upon which the issued Shares may for the time being be listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of any options granted under the Proposed Share Option Scheme; and
 - (4) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Proposed Share Option Scheme,

NOTICE OF EXTRAORDINARY GENERAL MEETING

and accordingly **THAT** the existing share option scheme of the Company adopted on 26 April, 2002 (the “Existing Share Option Scheme”) be and is hereby terminated with effect from the approval and the adoption of the Proposed Share Option Scheme as aforesaid becoming unconditional (without prejudice to the rights and benefits of and attached to any such options as may have been granted under the Existing Share Option Scheme which are outstanding).”

SPECIAL RESOLUTION

3. “**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, the shares of the Company, the regulations contained in the document marked “B” produced to the meeting and for the purposes of identification signed by the Chairman thereof be and are hereby approved and adopted as the new articles of association of the Company in substitution for and to the exclusion of all the existing articles of association of the Company.”

By order of the Board
Sino Biopharmaceutical Limited
Tse Ping
Chairman

Hong Kong, 30 October, 2003

Principal place of business:

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Notes:–

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority, at the Company’s Hong Kong branch share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
3. In the case of joint registered holders of any Shares, any one of them may vote at the meeting, either personally or by proxy, in respect of such Shares as if he/she was solely entitled thereto; but if more than one of such joint registered holders be present at the meeting, either personally or by proxy, that one of them so present whose name stands first on the register of members in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holders.