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SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

DISCLOSEABLE TRANSACTION

Acquisition of 35% equity interests in Beijing Tide Pharmaceutical Co., Ltd.

A letter from the board of directors of Sino Biopharmaceutical Limited is set out on pages 5 to 11 of this circular.

This circular will remain on the GEM website within the domain name of www.hkgem.com on the "Latest Company Announcements" page for 7 days from the day of its posting.

7 November, 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on 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 in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

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

“Acquired Interest”	the aggregate of 29.17% equity interest in the existing registered capital of Beijing Tide to be acquired by Sino (Beijing) pursuant to the Equity Transfer Agreement;
“Acquisition”	the acquisition by Sino (Beijing) of an aggregate of 35% equity interest in Beijing Tide pursuant to the Equity Transfer and the Capital Increase;
“Articles Amendment Agreement”	the agreement dated 17 October, 2003 entered into between Sino (Beijing), CLSA (China I), LTT Biopharmaceutical and China-Japan Hospital to amend the existing articles of association of Beijing Tide in consequence of the Equity Transfer and the Capital Increase;
“associates”	has the meaning ascribed to this term in the GEM Listing Rules;
“Beijing Tide”	Beijing Tide Pharmaceutical Co., Ltd. (北京泰德製藥有限公司), a sino-foreign equity joint venture established in the PRC which is owned as to 69.96% by China-Japan Hospital and 30.04% by LTT Biopharmaceutical;
“Beijing Tide Agreements”	the Equity Transfer Agreement, the Capital Increase Agreement, the JV Contract Amendment Agreement, the New JV Contract, the Articles Amendment Agreement and the New Articles;
“Board”	the board of Directors;
“Capital Contribution”	an aggregate amount of US\$ equivalent to RMB26,663,500 to be made by Sino (Beijing) for the purposes of contributing to the capital increase of Beijing Tide pursuant to the Capital Increase Agreement;
“Capital Increase”	the increase in the registered capital of Beijing Tide under the Capital Increase Agreement;

DEFINITIONS

“Capital Increase Agreement”	the conditional capital increase agreement dated 17 October, 2003 entered into between Sino (Beijing), CLSA (China I), LTT Biopharmaceutical, China-Japan Hospital and Beijing Tide relating to, among others, the increase in the registered capital of Beijing Tide;
“China-Japan Hospital”	China-Japan Friendship Hospital (中日友好醫院), a hospital established in the PRC which is an existing equity owner of Beijing Tide;
“CLSA (China I)”	CLSA Private Equity (China I) Limited (里昂證券直接投資(中國I)有限公司), a company incorporated in the British Virgin Islands with limited liability which is indirectly and wholly-owned by a private equity fund managed by CLSA Private Equity Management Limited;
“Company”	Sino Biopharmaceutical Limited (中國生物製藥有限公司), a company incorporated in the Cayman Islands with limited liability on 2 February, 2000, the shares of which are listed on GEM;
“Completion”	completion of the Equity Transfer and the Capital Increase;
“Convertible Bonds”	the 1% convertible bonds due 2006 in the aggregate principal amount of US\$10 million issued by the Company, details of which were set out in the announcement of the Company dated 14 August, 2002;
“Directors”	directors of the Company;
“Equity Transfer”	the transfer of equity interests in the registered capital of Beijing Tide under the Equity Transfer Agreement;
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 17 October, 2003 entered into between Sino (Beijing), CLSA (China I), LTT Biopharmaceutical and China-Japan Hospital relating to, among others, the transfer of equity interests in Beijing Tide;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;

DEFINITIONS

“Group”	the Company together with its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	independent third party(ies) who are not connected with the Company or the directors, chief executives, substantial shareholders (as defined in the GEM Listing Rules) or management shareholders of the Company or any of their respective associates;
“JV Contract Amendment Agreement”	the agreement dated 17 October, 2003 entered into between Sino (Beijing), CLSA (China I), LTT Biopharmaceutical and China-Japan Hospital to amend the existing joint venture contract of Beijing Tide in consequence of the Equity Transfer and the Capital Increase;
“Latest Practicable Date”	5 November, 2003, being the latest practicable date for ascertaining certain information contained in this circular;
“LTT Biopharmaceutical”	LTT Bio-Pharma Co., Ltd. (日本株式會社LTT生物醫藥), a company incorporated in Japan which is an existing equity owner of Beijing Tide;
“management shareholder”	any management shareholder of the Company; and “management shareholder” shall have the meaning ascribed to it under Rule 1.01 of the GEM Listing Rules;
“New Articles”	the new articles of association of Beijing Tide dated 17 October, 2003 entered into between Sino (Beijing), CLSA (China I), LTT Biopharmaceutical and China-Japan Hospital;
“New JV Contract”	the new joint venture contract of Beijing Tide dated 17 October, 2003 entered into between Sino (Beijing), CLSA (China I), LTT Biopharmaceutical and China-Japan Hospital;

DEFINITIONS

“PRC”	the People’s Republic of China, which, for the purpose of this circular and for geographical reference only, does not include the Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Sino (Beijing)”	Sino Biopharmaceutical (Beijing) Limited (中國生物製藥(北京)有限公司), a company incorporated in the British Virgin Islands with limited liability which is a wholly-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollars;
“US\$”	United States dollars; and
“%”	per cent..

LETTER FROM THE BOARD



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. Tse Ping (*Chairman*)

Mr. Tao Huiqi

Mr. Wang Jinyu

Independent Non-executive Directors:

Ms. Zheng Qun, Grace

Mr. Hu Ximing

Non-executive Director:

Ms. Josephine Price

Registered office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

British West Indies

Principal place of business in

Hong Kong:

Unit 09, 41st Floor, Office Tower

Convention Plaza

1 Harbour Road

Wanchai

Hong Kong

7 November, 2003

To the Shareholders

Dear Sirs,

DISCLOSEABLE TRANSACTION

Acquisition of 35% equity interests in Beijing Tide Pharmaceutical Co., Ltd.

INTRODUCTION

On 17 October, 2003, the Board announced that Sino (Beijing), a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement and the Capital Increase Agreement with certain Independent Third Parties (except that a director of one of the parties is also a non-executive Director) under which, among other things, Sino (Beijing) has conditionally agreed to acquire the Acquired Interest and to make the Capital Contribution.

LETTER FROM THE BOARD

On 17 October, 2003, Sino (Beijing), CLSA (China I), China-Japan Hospital and LTT Biopharmaceutical also entered into the JV Contract Amendment Agreement, the New JV Contract, the Articles Amendment Agreement and the New Articles in consequence of the Equity Transfer and the Capital Increase.

The entering into the Beijing Tide Agreements by Sino (Beijing) constitutes a discloseable transaction of the Company under the GEM Listing Rules as (i) the aggregate amount of the consideration for the transfer of the Acquired Interest and the Capital Contribution represents more than 15% (but less than 50%) of the adjusted net tangible assets of the Group; and (ii) the net profit of Beijing Tide for the year ended 31 December, 2002 attributable to the 35% equity interest in Beijing Tide which will be held by Sino (Beijing) immediately following Completion represents more than 15% (but less than 50%) of the audited net profit of the Group for the same year.

The purpose of this circular is to set out further details of the Acquisition.

A. THE EQUITY TRANSFER AGREEMENT

Date: 17 October, 2003

Parties:

- (i) Sino (Beijing);
- (ii) CLSA (China I);
- (iii) China-Japan Hospital; and
- (iv) LTT Biopharmaceutical.

Each of CLSA (China I), China-Japan Hospital and LTT Biopharmaceutical is an Independent Third Party (save that one of the directors of CLSA (China I) is a non-executive director of the Company). So far as the Directors are aware, none of CLSA (China I), China-Japan Hospital and LTT Biopharmaceutical nor any of their respective associates presently holds any shares of the Company.

LETTER FROM THE BOARD

Transfer of equity interests

Pursuant to the Equity Transfer Agreement, each of Sino (Beijing) and CLSA (China I) has conditionally agreed to acquire from the existing equity-owners in Beijing Tide certain portions of equity interest in Beijing Tide as follows:

	Transferor	Transferee	Equity interests in the existing capital to be transferred	Consideration
(a)	China-Japan Hospital	Sino (Beijing)	20.42%	RMB37,335,100
(b)	LTT Biopharmaceutical	Sino (Beijing)	8.75%	RMB15,998,100
(c)	China-Japan Hospital	CLSA (China I)	14.58%	RMB26,657,500
(d)	LTT Biopharmaceutical	CLSA (China I)	6.25%	RMB11,427,300

The total consideration for the transfer of the Acquired Interest to be paid by Sino (Beijing) is RMB53,333,200. Such consideration will be paid in US\$. The Company proposes to apply the net proceeds from its initial public offer in 2000 and / or the net proceeds from the issue of the Convertible Bonds (which is according to the intended use as stated in the announcement of the Company dated 14 August, 2002) to satisfy the payment of such consideration. The consideration for the Equity Transfer was determined by commercial negotiations between the relevant parties on an arm's length basis having regard to the assessed assets value (including tangible and intangible assets value) of Beijing Tide as at 31 October, 2002 (based on the assets valuation report prepared by Beijing JingDu Assets Valuation Co., Ltd. (北京京都資產評估有限責任公司) dated 18 August, 2003) of RMB182,835,900.

Upon completion of the Equity Transfer, the registered capital of Beijing Tide will be owned as to 35%, 15%, 29.17% and 20.83% by China-Japan Hospital, LTT Biopharmaceutical, Sino (Beijing) and CLSA (China I), respectively.

Condition

The Equity Transfer shall take effect upon all necessary approvals from the relevant PRC authorities of the transactions contemplated in the Equity Transfer Agreement, the Capital Increase Agreement, the JV Contract Amendment Agreement and the Articles Amendment Agreement having been obtained. There is no long stop date provided in the Equity Transfer Agreement.

LETTER FROM THE BOARD

B. THE CAPITAL INCREASE AGREEMENT

Date: 17 October, 2003

Parties:

- (i) Sino (Beijing);
- (ii) CLSA (China I);
- (iii) China-Japan Hospital;
- (iv) LTT Biopharmaceutical; and
- (v) Beijing Tide.

Capital Contribution to Beijing Tide

Pursuant to the Capital Increase Agreement, Sino (Beijing) and CLSA (China I) will contribute the US\$ equivalent of RMB26,663,500 and the US\$ equivalent of RMB19,045,500, respectively, to the registered capital of Beijing Tide, after relevant approvals have been obtained from the relevant PRC approval authorities in relation to the transactions. The Company proposes to apply the net proceeds from its initial public offer in 2000 and/or the net proceeds from the issue of the Convertible Bonds (which is according to the intended use as stated in the announcement of the Company dated 14 August, 2002) to satisfy its requisite capital contribution to Beijing Tide. The amount of the Capital Contribution was determined by commercial negotiations between the relevant parties on an arm's length basis having regard to the assessed assets value (including tangible and intangible assets value) of Beijing Tide as at 31 October, 2002 (based on the assets valuation report prepared by Beijing JingDu Assets Valuation Co., Ltd. (北京京都資產評估有限責任公司) dated 18 August, 2003) of RMB182,835,900.

Upon completion of the Capital Increase, the registered capital of Beijing Tide will be increased from US\$2.33 million (equivalent to RMB19.8 million) to RMB65.509 million which will be owned as to 28%, 12%, 35% and 25% by China-Japan Hospital, LTT Biopharmaceutical, Sino (Beijing) and CLSA (China I), respectively. Based on (i) the commercial negotiations between the parties; and (ii) China-Japan Hospital and LTT Biopharmaceutical are not the transferees of the Equity Transfer, China-Japan Hospital and LTT Biopharmaceutical would not make any contribution under the Capital Increase.

Condition

The Capital Contribution shall take effect upon all necessary approvals from the relevant PRC authorities of the transactions contemplated in the Equity Transfer Agreement, the Capital Increase Agreement, the JV Contract Amendment Agreement and the Articles Amendment Agreement having been obtained. There is no long stop date provided in the Capital Increase Agreement.

LETTER FROM THE BOARD

Board composition of Beijing Tide

Prior to Completion, the board of directors of Beijing Tide comprised seven directors, four of whom were appointed by China-Japan Hospital and three by LTT Biopharmaceutical. Upon Completion, the board of directors of Beijing Tide will comprise thirteen directors, four of whom will be appointed by China-Japan Hospital, two by LTT Biopharmaceutical, four by Sino (Beijing) and three by CLSA (China I). As confirmed by the Directors, the rights of appointment of directors to the board of Beijing Tide of each of Sino (Beijing), CLSA (China I), LTT Biopharmaceutical, Beijing Tide and China-Japan Hospital were determined by commercial negotiations between the relevant parties.

C. AMENDMENT TO THE JOINT VENTURE CONTRACT AND THE ARTICLES OF BEIJING TIDE

At the same time when the Equity Transfer Agreement and the Capital Increase Agreement were entered into, China-Japan Hospital, LTT Biopharmaceutical, Sino (Beijing) and CLSA (China I) entered into the JV Contract Amendment Agreement, the New JV Contract, the Articles Amendment Agreement and the New Articles in consequence of the Equity Transfer and the Capital Increase. Approvals from the relevant approval authorities in the PRC are required in relation to the JV Contract Amendment Agreement and the Articles Amendment Agreement.

D. INFORMATION ON BEIJING TIDE

Beijing Tide was established in the PRC on 29 May, 1995 as a sino-foreign equity joint venture. The registered capital and total investment of Beijing Tide is US\$2.33 million (equivalent to RMB19.8 million). Beijing Tide was owned as to 69.96% by China-Japan Hospital and 30.04% by LTT Pharmaceutical prior to Completion. Beijing Tide is principally engaged in research, development, production and sale of pharmaceutical products including chemical medicine.

The table below sets out the selected financial information on Beijing Tide based on its audited accounts (based on accounts prepared in accordance with the PRC accounting standards) for the two years ended 31 December, 2002:

	Year ended 31 December, 2002 <i>RMB'000</i>	Year ended 31 December, 2001 <i>RMB'000</i>
Turnover	139,748	101,200
Profit before taxation	76,263	44,922
Taxation	9,154	(9,577)
Profit after taxation	67,109	54,499

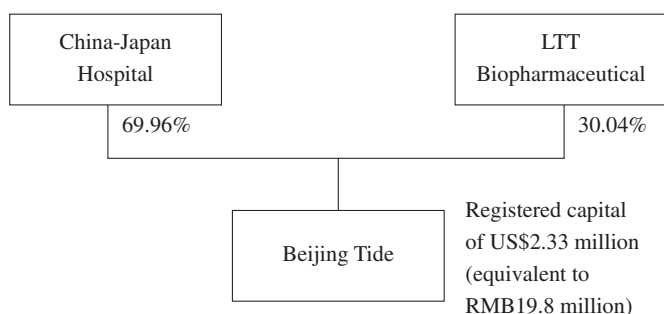
LETTER FROM THE BOARD

The net tangible assets value of Beijing Tide as at 31 December, 2002 was RMB92,979,000 (based on accounts prepared in accordance with the PRC accounting standards).

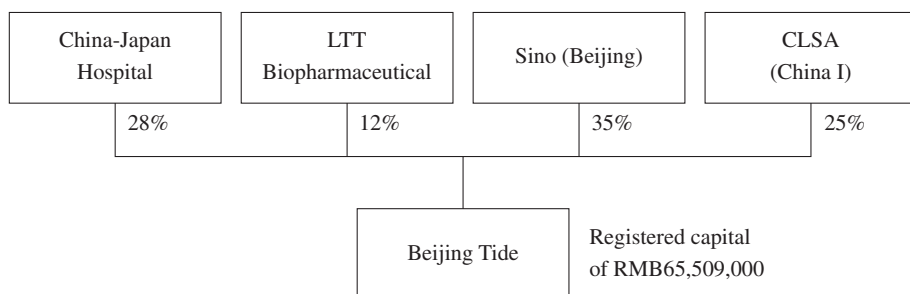
E. EQUITY HOLDING STRUCTURE OF BEIJING TIDE

The equity holding structure of Beijing Tide prior to Completion and its proposed equity holding structure upon Completion are set out below:

1. The equity holding structure of Beijing Tide prior to Completion



2. The proposed equity holding structure of Beijing Tide upon Completion



F. REASONS FOR THE TRANSACTION

The principal business of the Group is the research and development, production and sale of biopharmaceutical products, modernised Chinese medicines, chemical medicines and modern health-care products; and the investment in a sino-foreign equity joint venture whose principal business is the manufacture, distribution and sale of pharmaceutical products.

As stated in the section headed "Information on Beijing Tide" in this circular, the business carried on by Beijing Tide is similar and complementary to that carried on by the Group. The Board believes that the Acquisition is consistent with the Group's business objective relating to the establishment of business alliances with pharmaceutical enterprises as stated in the prospectus of the Company dated 22 September, 2000. Based on the audited net profit of Beijing Tide for the two years ended 31 December, 2002 as stated in the section headed

LETTER FROM THE BOARD

“Information on Beijing Tide” above, the Board also considers that the Acquisition represents an invaluable opportunity for the Group to invest in a profitable company which is also principally engaged in producing pharmaceutical products. Upon Completion, Beijing Tide will be treated as a jointly controlled entity of the Company.

The Directors consider the terms of the Acquisition are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

G. FINANCIAL EFFECTS OF THE ACQUISITION

As stated in the listing document of the Company dated 30 October, 2003, as at 30 April, 2003, the Group had an audited consolidated net tangible asset value of approximately HK\$298,013,000. As a result of the Acquisition, assuming Completion had been effected as at 30 April, 2003, the Group’s adjusted net tangible asset value would be approximately HK\$336,801,000.

For the four months ended 30 April, 2003, the audited consolidated profit attributable to shareholders of the Company was approximately HK\$32,018,000 whilst the unaudited net profit of Beijing Tide for the same period was approximately HK\$23,512,000 (approximately RMB25,013,000). Assuming the Acquisition was completed as at 30 April, 2003, the pro forma consolidated net profit of the Group upon Completion would have amounted to approximately HK\$40,247,000, representing an increase in basic earnings per share from approximately HK9.7 cents to approximately HK12.2 cents and an increase in diluted earnings per share from approximately HK8.7 cents to approximately HK10.9 cents as a results of the Acquisition.

H. GENERAL

The entering into the Beijing Tide Agreements by Sino (Beijing) constitutes a discloseable transaction of the Company under the GEM Listing Rules as (i) the aggregate amount of the consideration for the transfer of the Acquired Interest and the Capital Contribution represents more than 15% (but less than 50%) of the adjusted net tangible assets of the Group; and (ii) the net profit of Beijing Tide for the year ended 31 December, 2002 attributable to the 35% equity interest in Beijing Tide which will be held by Sino (Beijing) immediately following Completion represents more than 15% (but less than 50%) of the audited net profit of the Group for the same year.

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

By Order of the Board
Sino Biopharmaceutical Limited
Tse Ping
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) 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.

2. DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which was taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

Name of Director	Capacity/Nature of Interest		Total number of shares in the Company	Approximate percentage of issued share capital of the Company
	Beneficial owner	Interest of controlled corporations		
Mr. Tse Ping	3,000,000	231,120,000 <i>(Note 1)</i>	234,120,000	70.52%
Mr. Wang Jinyu	–	8,880,000 <i>(Note 2)</i>	8,880,000	2.67%
Mr. Tao Huiqi	400,000	–	400,000	0.12%

Notes:

1. Mr. Tse Ping held these shares through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping. The interest of each of these companies in the shares of the Company is set out in the section headed “Persons who have an interest or short position which is discloseable under the SFO and substantial shareholders” below.
2. Mr. Wang Jinyu held these shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

Long position in underlying shares

Pursuant to the share option scheme (the “Scheme”) adopted by the Company on 19 September, 2000, certain Directors, being Mr. Tse Ping, Mr. Wang Jinyu and Mr. Tao Huiqi, were granted options on 2 January, 2001 to subscribe for 7,500,000 shares, 1,000,000 shares and 1,000,000 shares of the Company, respectively, at a subscription price of HK\$0.74 per share exercisable during the period from 3 January, 2003 to 1 January, 2007 (both days inclusive). On 8 January, 2003, Mr. Tse Ping, Mr. Wang Jinyu and Mr. Tao Huiqi exercised part of their respective share options and subscribed 3,000,000 shares, 400,000 shares and 400,000 shares of the Company, respectively. As at the Latest Practicable Date, 4,500,000 shares, 600,000 shares and 600,000 shares remained issuable upon the exercise in full of all the respective share options of Mr. Tse Ping, Mr. Wang Jinyu and Mr. Tao Huiqi granted under the Scheme which were yet to be exercised.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which was taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

Persons who have an interest or short position which is discloseable under the SFO and substantial shareholders

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company was aware of any person who had any interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or were required, pursuant to Section 336 of the SFO, to be entered in the register

referred to therein; or were required, pursuant to Section 324 of the SFO, to notify the Company and the Stock Exchange; or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long position in shares

Name of shareholder	Capacity/ Nature of Interest	Number of shares of the Company	Approximate percentage of issued share capital of the Company
Conspicuous Group Limited	Beneficial owner	108,000,000 (Note)	32.53%
Remarkable Industries Limited	Beneficial owner	57,317,760 (Note)	17.26%
Validated Profits Limited	Beneficial owner	65,802,240 (Note)	19.82%

Note: Each of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping who is a Director.

Long position in underlying shares under equity derivatives

Name of shareholder	Capacity/ Nature of Interest	Number of underlying shares of the Company	Approximate percentage of issued share capital of the Company
Jian Kang Ltd.	Beneficial owner	27,368,421	8.24%
Aria Investment Partners, L.P.	Interest of a controlled corporation	27,368,421 (Note 1)	8.24%
CLSA Private Equity Management Limited	Investment manager	27,368,421 (Note 2)	8.24%
CLSA (S.E.A.) Limited	Interest of a controlled corporation	27,368,421 (Note 3)	8.24%

Name of shareholder	Capacity/ Nature of Interest	Number of underlying shares of the Company	Approximate percentage of issued share capital of the Company
Credit Lyonnais Securities Asia BV	Interest of a controlled corporation	27,368,421 (<i>Note 4</i>)	8.24%
Credit Lyonnais Capital Markets Asia BV	Interest of a controlled corporation	27,368,421 (<i>Note 5</i>)	8.24%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation	27,368,421 (<i>Note 6</i>)	8.24%
Credit Lyonnais S.A.	Interest of a controlled corporation	27,368,421 (<i>Note 7</i>)	8.24%
Credit Agricole S.A.	Interest of a controlled corporation	27,368,421 (<i>Note 8</i>)	8.24%
SAS Rue la Boetie	Interest of a controlled corporation	27,368,421 (<i>Note 9</i>)	8.24%

Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Jian Kang Ltd. and is deemed or taken to be interested in the 27,368,421 underlying shares in which Jian Kang Ltd. has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P..
3. CLSA (S.E.A.) Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
4. Credit Lyonnais Securities Asia BV is indirectly interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.

5. Credit Lyonnais Capital Markets Asia BV is beneficially interested in 65% of the share capital of Credit Lyonnais Securities Asia BV and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4 and 5 above.
7. Credit Lyonnais S.A. is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5 and 6 above.
8. Credit Agricole S.A. is beneficially interested in 94.82% of the share capital of Credit Lyonnais S.A. and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5, 6 and 7 above.
9. SAS Rue la Boetie is beneficially interested in 51.50% of the share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5, 6, 7 and 8 above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was aware of any person (not being a Director or chief executive of the Company) who had an interest or short position in shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

3. PARTICULARS OF DIRECTORS' SERVICE CONTRACT

- (a) The Company has on 16 September, 2003 entered into the service agreements with each of Mr. Tse Ping, Mr. Wang Jinyu and Mr. Tao Huiqi, each being an executive Director, for an initial term of three years commencing on the first day of commencement in dealings of the shares on the main board ("Main Board") of the Stock Exchange (the "Effective Date") which will continue thereafter unless and until terminated by either side by giving to the other not less than three months' notice in writing, in substitution for their respective existing services agreements dated 19 September, 2000, details of which are set out in the prospectus of the Company dated 22 September, 2000.
- (b) Each of the executive Directors is entitled to a basic salary which will be reviewed at the discretion of the Board.
- (c) Each of the executive Directors is also entitled to participate in any profit-related bonus scheme at the discretion of the Board.

- (d) The current basic annual salaries of the executive Directors are as follows:

Mr. Tse Ping	HK\$2,400,000
Mr. Wang Jinyu	HK\$240,000
Mr. Tao Huiqi	HK\$400,000

- (e) Pursuant to the two letters of appointment, both dated 16 September, 2003, each of Ms. Zheng Qun, Grace and Mr. Hu Ximing has been appointed as an independent non-executive Director for a term of two years commencing on the Effective Date, subject to the right of the independent non-executive Director to terminate her/his appointment at any time by giving the Company at least one month's notice in writing, in substitution for all the existing agreements.
- (f) Save as disclosed in this circular, no other Director has entered into any service agreement with any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. LITIGATION

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

5. COMPETING INTERESTS

As at the Latest Practicable Date and as disclosed in the listing document issued by the Company on 30 October, 2003, Mr. Tse Ping, being a Director, owned controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC") and ABH Nature's Products Inc. ("ABH").

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of medicine reducing blood-fat level, mammary gland disease medicines, cardiovascular medicines and other chemical medicines. CT Ankang acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerarin injections which may compete with an existing product namely, Puerarin glucose injections produced by the Group. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and veterinary medicines from Europe, the United States and Korea. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States.

Mr. Tse Ping has executed a deed of non-competition undertaking in favour of the Company (“New Undertaking”) on 9 September, 2003 pursuant to which Mr. Tse Ping has undertaken to the Company that, conditional upon the commencement of trading in the shares on the Main Board, for so long as (i) Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse Ping nor any of Mr. Tse’s Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (save through Mr. Tse’s interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the New Undertaking:

“Mr. Tse’s Company(ies)” refers to any of the companies or other entities of which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature;

“Restricted Business” refers to:

- (i) the research and development, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernised Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and
- (ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases; and

“Territory” refers to the PRC (including Hong Kong).

The New Undertaking does not apply to the following:

- (i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;
- (ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse Ping and/or his associates do not amount to more than 20% of the issued shares or other securities of the company in question; and

- (iii) the investment by Mr. Tse Ping and/or any Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse Ping or a Mr. Tse's Company, in either case in accordance with the paragraph below.

In the event that Mr. Tse Ping or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which CT Xian and/or HTPC is/are engaged as at the date of the New Undertaking) (the "Proposed Business"), Mr. Tse Ping will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse Ping and/or any Mr. Tse's Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:

- (i) reject the said opportunity in its entirety; or
- (ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or
- (iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse Ping (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

Save as disclosed above, none of the Directors or the management shareholders of the Company had an interest in a business which compete or may compete with the business of the Group.

6. GENERAL

- (a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.
- (b) The principal place of business of the Company in Hong Kong is at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

- (d) The qualified accountant and company secretary of the Company is Ms. Yu Chau Ling, FCCA, AHKSA.
- (e) The compliance officer of the Company is Mr. Tse Ping.
- (f) The Company set up an audit committee (the “Committee”) on 19 September, 2000 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group and also reviewing the draft annual report and accounts, half-year report and quarterly reports of the Group and providing advice and comments thereon.

The Committee comprises two members, being two independent non-executive Directors, namely Ms. Zheng Qun, Grace and Mr. Hu Ximing. The chairlady of the Committee is Ms. Zheng Qun, Grace. The background of the members are set out below:

Ms. Zheng Qun, Grace (鄭群女士), aged 35, is an independent non-executive Director. She holds a Master of Business Administration from the University of California, Riverside and a Bachelor of Arts in Technology English from Tianjin University of Technology. She has three years professional experience in internal and external audit with Ernst & Young, an international accounting firm. She was appointed as an independent non-executive Director on 30 June, 2003.

Mr. Hu Ximing (胡熙明先生), aged 69, is an independent non-executive Director. He was a member of the Ninth CPPCC and the chief editor of the Chinese Traditional Medicine Magazine of China. Mr. Hu has assumed a number of titles, including deputy minister of the Ministry of Health, and director of the State Administration of Traditional Chinese Medicine. He was appointed as an independent non-executive Director on 19 September, 2000.